FINANCIAL TIMES

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EU institutional reform
A worthy cause for the return of Jacques Delors?
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European film industry
Booming business attracts attention of Hollywood
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WORLD NEWS

Brussels takes France and Italy to task over 35-hour working week

France and Italy face European Commission criticism today over their plans to introduce a 35-hour working week. Brussels argues the proposals will not promote flexible labour markets or job creation. European Union finance ministers will consider the commission's macro-economic guidelines next week. **Page 12**

Defence system fails test
The Pentagon's costly THAAD defence system failed a fifth flight test because of a booster fault. The system is meant to protect troops from short- and medium-range missile attacks. **Page 4**

Funds sought for N Ireland
UK finance minister Gordon Brown is to tour 10 US cities in quest of investments to underpin Northern Ireland's peace settlement. **Page 8**

Turkish police in big drugs bust
Turkish police said they seized $40m-worth of heroin bound for the Netherlands in an operation in western Turkey. Six people were held after the operation by Turkish and Dutch police and Interpol.

'Little progress' on Kosovo
US envoy Richard Holbrooke admitted he had made little progress in getting ethnic Albanian separatists in southern Serbia to open direct talks with Belgrade on stopping the Kosovo conflict. **Page 2**

Fires 'under control'
Bush fires in East Kalimantan on Indonesia's side of Borneo are under control thanks to recent rains, environment minister Juwono Sudarsono said at an Asean workshop on the smoke haze problem.

Nuclear reprocessing halted
Scotland's Dounreay nuclear complex has been ordered to halt most operations until it can convince the UK's nuclear watchdog it is safe. **Page 8**

Russia seeks to host G8
Russian president Boris Yeltsin made a bid to host a future summit of the world's leading industrialised nations. He suggested Japan allow Russia host the 2000 G8 summit in its stead. **Page 2**

Spy voices relief
American Jew Jonathan Pollard, jailed for life in the US for spying for Israel, said he was grateful Israel had finally recognised him as its agent. Israel admitted his role 13 years after denying him sanctuary in its Washington embassy.

Poll gives Bush the edge
George Bush, Republican governor of Texas, narrowly led Vice President Al Gore in a USA Today/CNN/Gallup Poll on the 2000 presidential election. **Page 4**

Nigerian opposition man held
Nigerian security agents seized Ayo Opadokun, a top official with Nigeria's main opposition group. Separately, violent pro-democracy demonstrations raged in a south-western city.

Taiwan policy maker in Hong Kong
China-Taiwan ties showed signs of warming as Chang King-yuh, Taipei's top China policy maker, visited Hong Kong and Taiwan invited a senior Chinese official to visit the island.

Death sentence suspended
A Pakistan court suspended the death sentence passed on a Christian under the country's Islamic blasphemy law. Last week a Pakistan bishop committed suicide in protest at the law.

BUSINESS NEWS

Belgium's biggest bank steps nearer to merger with Fortis financial group

Directors of Générale de Banque, Belgium's biggest bank, agreed to back a merger with Fortis, the Belgo-Dutch financial group, to create one of Europe's 10 biggest banks. Its total market capitalisation will be about $33.6bn. **Page 13; Lex, Page 12**

News Corporation's attempt to break into US satellite television faced its biggest hurdle to date as the government prepared a lawsuit in a bid to block News Corp's $1.1bn joint venture deal with a cable TV consortium. **Page 13**

The United Arab Emirates announced an order for 80 advanced US-made F-16 fighter jets worth about $7bn. **Earlier story, Page 6**

Deutsche Bank changed the management structure of its new wholesale banking division to place a higher priority on the German bank's European activities. **Page 13; New role for US, Page 17**

Deutsche Telekom, German telecoms group, is to take a DM3.5bn-DM4.5bn ($1.9bn-$2.5bn) charge because of a regulatory ruling which it claimed would hit its lossmaking cable television activities. **Page 14**

Seagram, Canadian drinks and entertainment group, is formulating a bid for 100 per cent of PolyGram, the world's largest record company. **Page 13; Uncertain future, Page 14**

Scandinavian Airlines System said it had lost SKr250m ($32.5m) during Denmark's 11-day national strike. **Page 14**

Young & Rubicam, the world's fifth-largest advertising agency, made its debut on Wall Street where shares in its initial public offering jumped more than 10 per cent to $28. **Page 18**

BCE, Canadian telecoms group, put its 14.25 per cent stake in Cable & Wireless Communications of the UK up for sale. **Page 18**

Port of Belfast, largest harbour facility in Northern Ireland, was put up for sale by the UK Labour government. **Page 8**

Japan's wholesale price index dropped 2.7 per cent year-on-year in April, underlining fears that the economy could be slipping into a deflationary cycle. **Page 7**

Australia reported its first budget surplus for nearly a decade in spite of the negative impact of Asian economic turmoil on growth and employment. **Page 7**

Ssangyong, South Korea's sixth-largest conglomerate, said it planned to sell $1bn in assets to foreign investors. **Page 16**

South African Breweries said it would concentrate on its core drinks business and announced provisions of R1.1bn ($220m) against the disposal of other parts of the conglomerate. **Page 14**

Alphatec Electronics' creditors filed a court petition to rehabilitate the Thai semiconductor company under the country's new bankruptcy law. **Page 16**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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Indian nuclear tests provoke sanctions and cuts in aid

New Delhi's action threatens regional stability, warns President Clinton

By Our International Staff

President Bill Clinton said yesterday he was deeply disturbed by India's nuclear tests and that he would implement sanctions against New Delhi, as mandated by US law.

The legislation, ratified by Mr Clinton in 1994, would require the US to stop official aid and credits and bar US commercial banks from making loans. The law also requires the US to vote against loans to India at the World Bank and International Monetary Fund.

"This action by India not only threatens the stability of the region, it directly challenges the firm international consensus to stop the proliferation of weapons of mass destruction," Mr Clinton said. The 1994 law contained "very stringent provisions", which he intended to implement fully.

He called on India to announce an intention to conduct no further nuclear tests and to sign the Comprehensive Test Ban Treaty "now and without conditions".

India offered no immediate reaction to Mr Clinton's demands. But in a bid to contain criticism, Atal Behari Vajpayee, prime minister of the nationalist-led government, sent letters to six world leaders, including President Clinton, explaining why India had opted to conduct its first nuclear test in 24 years.

The US urged Pakistan, India's neighbour and rival, to show restraint. But Nawaz Sharif, Pakistan's prime minister, said: "I want to assure the whole nation that, God willing, we are aware of Pakistan's legitimate security concerns and I think we can take our decisions ourselves."

Japan said it was highly likely that it would impose sanctions against India. Germany said it had cancelled negotiations with India on development aid.

Derek Fatchett, UK foreign minister, said he and his European colleagues were "surprised and disgusted" by the nuclear tests.

But he said Britain, one of the biggest donors to India, would not stop sending aid.

Officials in Bonn and Tokyo said further action would be taken, probably at the Birmingham summit of Group of Eight world leaders this week, where India is likely to top the agenda.

Ryutaro Hashimoto, Japan's prime minister, said India had ignored a letter from him six weeks ago asking New Delhi not to resume nuclear testing.

Last year Japanese aid to India totalled Y136.5bn ($1bn), in loans and grant aid. This represents nearly half of India's entire overseas aid, making Japan the largest single aid donor to New Delhi.

In Delhi, Pramod Mahajan, political adviser to Mr Vajpayee, said India would not yield to pressure. The tests had made India "a global player", Mr Mahajan said. "And when you are a global player, you have room to negotiate."

The Indian cabinet yesterday affirmed its continued commitment to global nuclear disarmament within a stipulated time frame. However, it said until the nuclear environment around it was changed, India's national security interests "would remain paramount".

The nuclear tests have been greeted with jubilation by Indians, many of whom believe their country will now receive the international respect they feel it deserves.

"It's a great thing," said Dr Jay Dubashi, head of the ruling Bharatiya Janata party's economic policy cell. "We always say we are poor, we don't really count. Now we will."

China condemns, Page 7
Explosion of self-esteem, Page 11

An injured student from Trisakti University, Jakarta, is carried away from protests yesterday at which four demonstrators were killed by Indonesian security forces. The clashes raised concerns that violence was escalating across Indonesia as more people demanded President Suharto's removal from office. Report, Page 12. Picture: Reuters

Strasbourg approves move on biotechnology patent laws

Directive will help European groups compete with US and Japanese rivals

By Samer Iskandar in Strasbourg and Daniel Green in London

The European Parliament yesterday made it easier for EU biotechnology companies to close the gap with their US competitors when it approved legislation to bring European patent laws into line with those of the US and Japan.

Proponents of the EU directive on the legal protection of biotechnological innovations had warned that failure to adopt the text could lead to a "brain drain" of European scientists to the US.

But the measure was fiercely opposed by environmentalists, religious groups, and political parties of the extreme left and extreme right. They argued that the directive was immoral and would stifle rather than encourage research.

In spite of the opposition, the parliament yesterday approved an amended version of the measure, three years after rejecting the initial text. The decision paves the way for the directive to be translated into national legislation once it has been formally adopted by ministers from the 15 member states.

The directive aims to harmonise national laws governing patents on biotechnological innovations. Its adoption signals a more sympathetic approach to the fledgling industry by European legislators.

The approved text takes into account amendments proposed by the parliament after it rejected the initial text agreed by ministers.

Ministers went back to the drawing board and agreed to meet most of the assembly's requirements. The text allows the patenting of genetically modified plants and animals, but not humans.

It explicitly bans the cloning of human beings and changing human genes in such a way that the changes could be inherited.

On the question of the human body, the parliament's amendment was adopted word for word: "The human body, at the various stages of its formation and development, and the simple discovery of one of its elements cannot constitute patentable inventions."

Opponents of the directive failed to gather enough votes to force new amendments, which could have delayed adoption by several years. Pressure groups were yesterday fighting a rearguard action with, for example, the British Union for the Abolition of Vivisection again denouncing the directive.

Mario Monti, the EU single market commissioner, said the amended text guaranteed a balance between the specific concerns of patent law and ethical concerns.

The European biotechnology industry has grown to more than 1,000 companies, according to a survey last month by Ernst & Young, largely as a result of expansion in Germany, France and the UK. Most are still tiny, employing fewer than 40,000 people compared with 140,000 working in the US biotechnology sector.

Sun tries to block the launch of Windows 98

By Louise Kehoe in San Francisco

Sun Microsystems of the US took legal action yesterday seeking to stop arch-rival Microsoft launching Windows 98, its new personal computer operating system, unless it is modified.

In a federal court filing, Sun – a Silicon Valley computer manufacturer and software developer – said that Microsoft's new personal computer operating system would become a "massive distribution vehicle" for disputed technology.

Federal and state anti-trust regulators are expected to file new charges against Microsoft within days, which may also include demands that it delays distribution of Windows 98.

The government has been investigating whether Microsoft has used exclusionary or predatory practices to restrain competition.

Microsoft dismissed the legal motion as a "publicity stunt". "The timing is suspicious," said Tod Nielsen, manager of Microsoft's developer relations. Sun was seeking to ride the wave of public interest in Windows 98, he added.

Windows 98, which is scheduled to be shipped to PC manufacturers on Friday and introduced as a retail product next month, is an updated version of the most widely used PC operating system. Bill Gates, Microsoft chairman and chief executive, said last week that any government action to disrupt shipment of Windows 98 would "hurt the American economy and would cost American jobs". The effects, he said, "would be profound and would ripple through the economy".

Yesterday's action by Sun is separate to any legal moves by the government or states, and concerns the Sun-developed Java, the new lingua franca of the computer world.

For the first time, Java enables software developers to write programs that will run on any type of computer linked to the internet or a corporate network.

Sun has licensed Java to more than 100 software developers over the past two years. Microsoft, one of the licensees, has used Java in the internet browser program which is part of Windows 98.

In October, Sun filed a lawsuit charging that Microsoft had "deceptively modified" Java so that it works better with Windows, effectively "co-opting" the technology to enhance its Windows monopoly. Microsoft filed counter-charges claiming breach of contract.

Sun said yesterday it was seeking a preliminary injunction to block shipments of Windows 98 until it was modified to incorporate a "pure" version of Java.

Microsoft shares were trading at $83¾ in mid session yesterday, down $1⁄16 from Monday's close. Sun was unchanged at $41.

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9079.56	(−11.96)
NASDAQ Composite	1841.59	(−6.48)
Europe and Far East		
CAC40	3987.33	(−29.91)
DAX	5297.35	(−44.34)
FTSE 100	5958.7	(−71.9)
Nikkei	154322.48	(−59.42)
US LUNCHTIME RATES		
Federal Funds	5.5%	
3-mth Treas Bills: Yld	5.125%	
Long Bond	101⅞	
Yield	6.022%	
OTHER RATES		
UK: 3-mo Interbank	7⅝%	([illegible])
UK: 10 yr Gilt	109.7891	(110.015)
France: 10 yr OAT	103.18	(103.54)
Germany: 10 yr Bund	106.75	(107.16)
Japan: 10 yr JGB	111.4	(111.11)
NORTH SEA OIL (Argus)		
Brent Dated	$14.60%	(14.53)

GOLD		
New York: Comex		
(May)	$298.0	(300.3)
London:	$298.05	(301.15)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.635	
DM	1.7735	
FFr	5.9469	
SFr	1.4787	
Y	134.015	
London:		
£	1.6342	(1.6305)
DM	1.7747	(1.7785)
FFr	5.951	(5.9583)
SFr	1.4811	(1.4835)
Y	133.835	(132.71)
Tokyo Close		Y 132.8
Sterling		
DM	2.9002	(2.8986)

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WORLD NEWS
EUROPE

Yeltsin in bid to host G8 summit

By Chrystia Freeland in Moscow

Russian President Boris Yeltsin yesterday made a bid to host a future summit of the world's leading industrialised nations and challenged an inquisitive American to a sporting competition in a day of energetic traditional and high-tech diplomacy.

The formalities were observed at the foreign ministry, where Mr Yeltsin praised his team in a rare personal appearance and awarded top diplomats, including the foreign minister, with state medals.

Afterwards, Mr Yeltsin answered questions in his first internet press conference in an effort to raise Russia's profile ahead of the Group of 8 industrialised nations' summit in Birmingham next week.

At the foreign ministry, Mr Yeltsin lavished praise on Yevgeny Primakov, the 69 year-old former spy-master. Hinting that Mr Primakov would keep his job until the president's current term runs out in 2000, Mr Yeltsin commended him for building a coherent diplomatic team and restoring Russia's international prestige.

Mr Primakov has criticised the close US links which Russia developed immediately after the collapse of the USSR and has called for a more "balanced" policy including restoration of ties with traditional Soviet allies.

In a show of Kremlin support for this approach, Mr Yeltsin called for the creation of a "multi-polar world", a clear reference to Moscow's efforts to counter US dominance.

However, in a move likely to be welcomed in Washington, Mr Yeltsin made a fresh appeal to the Russian parliament to ratify the Start-2 nuclear arms treaty, which has been blocked by Communist legislators.

Mr Yeltsin also called on Russian diplomats to pursue economic diplomacy more aggressively and promised to improve the status and salaries of the nation's underpaid and demoralised diplomatic corps.

The president also engaged in some energetic diplomacy of his own, venturing into cyberspace, where he took questions from "world citizens of the internet".

They ranged from concerns about the Kremlin chief's health – which he parried by challenging his American interlocutor to a sports match – to Mr Yeltsin's assertion that Russia was not "mature enough" for a woman president.

The Russian leader also used the internet to ask for a political favour. He suggested that his "dear friend" Ryutaro Hashimoto, Japanese prime minister, allow Russia to take Japan's place as host of the G8 summit in 2000.

Kiriyenko: the mockery turns to approval

The hope is his cabinet will be the most effective since Russia's market changes began, writes **Chrystia Freeland**

When President Boris Yeltsin of Russia first announced that baby-faced Sergei Kiriyenko, 35, would lead his new government, the world's initial response was astonishment. The New Yorker magazine captured the mood with a cartoon of a little boy announcing proudly into his toy telephone: "Yes, Boris Nikolaevich, I would be honoured to join the cabinet".

But as Mr Kiriyenko weathered a fraught confirmation battle with the parliament in April, then assembled his cabinet, the mockery has turned to approval. Russian reformers and western economists like the ministerial team Mr Kiriyenko has chosen. Some even dare to hope the new cabinet will be Russia's most effective and progressive government since those led by Yegor Gaidar at the outset of Russia's market transformation.

"So far, so good," concluded Christopher Granville, chief strategist at Fleming UCB, a Moscow-based investment bank. "The new government is lucid, has a clear grasp of the problems it will face, and the individual members seem of high quality."

Itogi, an influential Russian news magazine, was bolder, describing the new cabinet as "a government with the policies of Yegor Gaidar and the teeth of Anatoly Chubais [the reform guru sacked by Mr Yeltsin last month]".

Mr Kiriyenko, expected to put the finishing touches to his cabinet this week, has chosen his ministers in his own image: young, provincial and with business experience in Russia's fledgling market economy. Victor Semyenov, 40, the new agriculture minister, has made a fortune selling beef to McDonald's. Victor Khristenko, 41, one of a troika of deputy prime ministers, is a former businessman from Cheliabinsk, in the Urals.

The new government's supporters hope it will be more effective than the often squabbling and slow-moving team led by Victor Chernomyrdin, the outgoing prime minister sacked by Mr Yeltsin in March.

"The Chernomyrdin government sought compromise," Mr Chubais said in a recent interview with the magazine Novoe Vremya. "But now, the president has chosen conflict. That means we have the chance to form a government able to take the steps vital for the economy and the country, even if they do not please the opposition and Berezovsky [a powerful magnate and recently appointed government official.]"

Mr Granville agreed, pointing out that the new government, in contrast to Mr Chernomyrdin's battle-scarred team, is largely free of the sins, controversial friendships and political animosities the previous cabinet accumulated during the turbulent economic transition of the past few years.

"They've brought in fresh talent, not burdened by battles with the oligarchs," he said, referring to the bruising bankers' war which helped discredit the old government.

Boris Yeltsin hinted that Yevgeny Primakov (right) would remain foreign minister until the president's term runs out in 2000 Reuters

Over the past few days, Mr Kiriyenko and his cabinet have given some credence to these hopeful predictions. In a sign that the new government intended to confront Russia's troubled fiscal situation directly, Mr Kiriyenko announced last week the state was unable to pay more than a quarter of its financial obligations. "We must tell the people honestly that Russia is quite a poor country," he declared.

His ministers took up the baton over the weekend, reiterating government plans to sack more than 200,000 civil servants. When this was first publicly floated in the FT in March, it earned its author, Alexei Kudrin, the highly respected deputy minister of finance, scathing censure from the Kremlin. But now the new cabinet is in place, the government seems unafraid to admit its painful reform plans.

Not everyone is convinced the Kiriyenko team will act on its tough rhetoric. Some Russian analysts doubt the new premier has the long-range vision to reform Russia's crony capitalism or cope with its economic dependence on oil exports, the price of which is falling. Others wonder how long the new team will avoid being entangled in the corporate web which ultimately immobilised the old cabinet.

In the short term, Mr Kiriyenko's biggest challenge will be to keep the attention of Russia's sometimes erratic president. When he acts, Mr Yeltsin is almost always an ally of reform.

But as he ages, he seems increasingly inclined to alternate bursts of frantic political activity and prolonged professional hibernation. That would be fatal for Mr Kiriyenko, who will need his backing to cut through Russia's huge bureaucracy and duel with its powerful regional chieftains.

The presidential race in 2000 draws closer. If Mr Kiriyenko cannot deliver a prospering economy to the next president, the Kremlin's new master could choose to abandon the market course.

Russia's oil barons, Page 24

Broader German recovery forecast

By Ralph Atkins in Bonn

Germany's export-powered economic recovery is expected to broaden this year and in 1999, with a marked pickup in domestic demand, according to forecasts by six leading economic institutes yesterday.

But Chancellor Helmut Kohl faces the prospect of only a modest reduction in unemployment as he fights for another term in office in September's election.

In former Communist eastern Germany, unemployment will be higher this year than last and growth will remain significantly below that in the west.

Government ministers seized on the institutes' spring report as evidence of the improvement in economic fortunes needed to boost the centre-right coalition's poor opinion poll ratings.

Theo Waigel, finance minister, said a turning point had been reached in combating high unemployment. "The punctual start of the euro single currency will lead to a lasting improvement in the climate for investment and employment," he said.

Investment in plant and machinery is expected to rise by 6.9 per cent this year and 7.5 per cent in 1999, compared with 3.9 per cent in 1997. After remaining virtually stagnant last year, private consumption is forecast to rise 1.7 per cent in 1998 and 2.1 per cent next year, with consumer confidence helped by increased real disposable incomes and a pickup in employment.

The institutes, based in Berlin, Hamburg, Munich, Kiel, Halle and Essen, expect last year's rapid export growth to slow over the next 18 months. South-east Asia's economic turmoil could cut German exports by up to two percentage points.

The institutes have also trimmed their overall growth forecast for 1998. The 2.8 per cent growth rate forecast last October was yesterday revised down to 2.6 per cent. For next year, the institutes expect 2.7 per cent growth.

In addition, Germany will continue to remain blighted by high unemployment, caused largely by structural problems. The total this year is expected to remain roughly constant at 4.38m, before falling to 4.2m in 1999.

East German unemployment will also fall slightly next year. Oskar Lafontaine, chairman of the opposition Social Democratic party, said the high level of unemployment remained the defining question of German politics.

The institutes are optimistic that the euro will not depreciate after its launch next year and suggest a modest appreciation against the dollar is possible.

Prodi urged to reshuffle ministries

By James Blitz in Rome

Romano Prodi, Italy's prime minister, is being forced to consider a hasty restructuring of Rome's government ministries because of a row triggered by the recent mudslide disaster in the Naples region.

Massimo D'Alema, the leader of the Party of the Democratic Left (PDS), which is the the main party in the government coalition, is demanding that Mr Prodi should dissolve the powerful ministry of public works.

The ministry is responsible for a wide range of environmental policies, including building programmes and emergency relief in times of disaster. But its recent rescue operation in the Campania region, where more than 135 people died, has been criticised for inefficiency.

Mr D'Alema is demanding that the powers of this ministry, which is headed by one of Mr Prodi's closest aides, Paolo Costa, should be divided up between Italy's environment and transport ministries to avoid any overlap in operations.

Mr Prodi, who has long feared that a serious government reshuffle could upset the balance of forces in his coalition, is resisting the move. He has deferred a decision on the issue until a cabinet meeting in ten days.

Mr D'Alema's demand is a calculated attempt to reassert his authority within the ruling coalition, amid fears that he has been outmanoeuvred in recent months by the more "technocratic" Mr Prodi.

Any diminution in the powers of the public works ministry would be a blow to Mr Costa. The powers of the public works minister – with his L12,000bn ($6.9bn) annual budget – would go to departments led by politicians from the green party and the PDS over whom Mr Prodi has less sway.

Moreover, Mr Costa, a member of the former Christian Democratic Popular Party (PPI), could not be deprived of his power base without upsetting the delicate balance of forces in the ruling coalition.

The betting in Rome yesterday was that this latest row would end in the inevitable compromise in which all ministers would keep their jobs. But the perception of who wins this battle – Mr D'Alema or Mr Prodi – could have policy implications.

Holbrooke sees little progress on Kosovo

By Guy Dinmore in Belgrade

Richard Holbrooke, the US envoy shuttling between ethnic Albanian separatist leaders in southern Serbia and the government in Belgrade, admitted yesterday he had made little progress in getting the two sides to start direct talks on stopping the conflict in Kosovo province.

Slobodan Milosevic, the Yugoslav president, has rejected western demands for third-party mediation. He has also told the US and its allies to remove sanctions imposed over the past two weeks that block new investments in the republic of Serbia and freeze government funds abroad.

Ibrahim Rugova, leader of the ethnic Albanian party that is waging a non-violent campaign for Kosovo independence, has resisted US pressure to denounce the rebel movement of the separatist Kosovo Liberation Army (KLA) and refuses to enter talks with Belgrade without mediation.

"We are trying to get a process going. All other details are being discussed and, I might add, without much progress," Mr Holbrooke said after meeting Mr Rugova in the provincial capital, Pristina. He then flew to Belgrade for his third round of talks with Mr Milosevic since Saturday.

US officials warned Mr Holbrooke might end his mission unless progress was achieved soon.

Failure could result in a full-scale war in Kosovo. Diplomats believe Mr Milosevic is using the conflict not only to recover his former position as the main power-broker in the Balkans but also to remove his main political opponent, Milo Djukanovic, the pro-western president of the small republic of Montenegro.

Allies of Mr Milosevic yesterday announced they would initiate a vote of no-confidence in the federal Yugoslav government led by Radoje Kontic, the prime minister. He was long regarded as loyal to Mr Milosevic but is believed to have opposed a state of emergency that would have stopped Mr Djukanovic's inauguration in January.

The low-level war in Kosovo between the KLA and Serbian forces has claimed over 150 lives this year and threatens to move from the mainly Albanian-populated countryside into towns with a greater ethnic mix.

Ibrahim Rugova (centre), with US envoys Richard Holbrooke (right) and Robert Gelbard Reuters

Residents of Pristina heard heavy gunfire for over an hour in the eastern suburbs early yesterday.

Officials said that one policeman was wounded in an attack by "terrorists" and that police killed a 58-year-old man in response. Police said they then raided a house and seized a cache of weapons, military fatigues and terrorist training manuals.

Move to speed oil cash to Baku

By Robert Corzine in London and Carlotta Gall in Moscow

Foreign oil companies developing the biggest offshore project in the Caspian Sea region are seeking ways to speed up the remittance of revenues to Azerbaijan, amid concerns that a cash shortage could undermine the country's stability.

The Azerbaijan International Operating Company (AIOC) – the consortium behind the $8bn development of the offshore Azeri, Chirag and deepwater section of the Guneshli fields – has been producing limited amounts of oil since last autumn, but very little revenue is flowing to President Haydar Aliyev's government.

"We have to find a way to provide money to Azerbaijan," said one western oil executive. "We can't play fast and loose with these people. It's their lives we're talking about." The executive's comments confirm growing unease in the oil industry about managing the expectations of emerging oil producers in the former Soviet Union and elsewhere.

Azerbaijan and its 7m people are surviving largely on the hope of future oil wealth. The country is grappling with enormous social problems after a six-year war over Nagorny-Karabakh, the Armenian-populated enclave, and the burden of some 850,000 refugees.

The AIOC project is seen as the bellwether for international oil developments in the Caspian. "Early oil" from the first phase of the project started to flow late last year.

But it could be some years before the Baku government saw any sizeable revenues from the project. That is because the production-sharing agreement signed by the AIOC and Baku in 1994 allowed the companies to recover their costs first.

About $1bn has been spent on developing the Chirag One platform. It will eventually produce around 115,000 barrels a day, although present production is only about 40,000 b/d. This is exported via a northern pipeline to the Black Sea Russian oil terminal at Novorossiysk.

The consortium needed to spend an additional $275m to build a new western export pipeline to neighbouring Georgia, after the existing line was found to be unusable. The AIOC and the government have failed to agree on how the extra funds for the pipeline should be recovered by the consortium.

Some oilmen argued the only way to boost revenues is to raise the capacity of Chirag One and export the additional oil via the western pipeline, which should be completed next year.

Officials at Azerbaijan's state oil company, Socar, were guarded about accelerating output from the AIOC. "There is talk of this, but as yet no decisions have been taken," said Khozhbakht Yusefzade, vice-president in charge of exploration.

An alternative might be to simplify the technology employed on the next phase of development, which the consortium is expected to approve later this year.

Mr Yusefzade declined to say whether Socar, which held 10 per cent stake in the consortium, was prepared to accept changes in the standard of technology.

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NEWS DIGEST

TURKISH ATTACK

Rights activist shot after claim of Kurdish link

A leading human rights activist was critically injured after being shot in his office in central Ankara by two unidentified assailants.

Akin Birdal, president of Turkey's Human Rights Association, suffered six bullet wounds in the leg, chest and shoulder in the midday attack and underwent surgery for the removal of some of the bullets, according to Tevfik Ali Kucukbas, chief physician at Sevgi Hospital.

The assailants, described as men in their early 20s, fled the scene. Scores of supporters and journalists waited for word outside the hospital, where security was tightened. Some in the crowd jeered Murat Basesgioglu, the interior minister, and other members of the government as they arrived at the hospital.

Husnu Ondul, general secretary of the association, said Mr Birdal had received death threats and that authorities had ignored the rights leader's request for increased security.

According to Turkish press reports, a recently captured Kurdish rebel leader accused Mr Birdal of working closely with fighters of the outlawed Kurdistan Workers party, a claim the rights leader denied. **Kelly Couturier, Ankara**

UKRAINE ECONOMY

President warns on currency

Leonid Kuchma, Ukraine's president, said yesterday the government and central bank must change policies on the hryvnia so that the exchange rate kept pace with inflation.

"Corrections are necessary in monetary policy, since the orientation towards raising the rate, which has been in place for the past two years, hurts national producers, above all exporters," Mr Kuchma told parliament.

Until this year the hryvnia rate has depreciated more slowly than the inflation rate. The currency has been kept in a band of 1.80-2.25 hryvnias to the dollar in 1998, against a band of 1.70-1.90 per dollar for most of last year.

Exporters have put pressure on the government to devalue the hryvnia to make their goods more attractive abroad.

Mr Kuchma said the government planned to slow inflation to 7-8 per cent in 1999 from a forecast 10-12 per cent this year. Inflation would drop further to 5-6 per cent at the turn of the century and beyond, he added. **Reuters, Kiev**

FRENCH BOMBING

Corsicans admit attack

Corsican separatists claimed responsibility yesterday for the bombing of a public building on France's mainland, saying it ended an unannounced three-month truce in their "military fight" against French rule.

The blast, on Saturday, tore a large hole in the facade of the building that houses the regional council for the Provence-Alpes-Côte d'Azur region in the Mediterranean port of Marseilles.

At the same time, three masked bombers were caught red-handed in Ajaccio, Corsica's capital, before their explosives could blast a bank, French police said.

The Corsican National Liberation Front-Historical Wing (FLNC) said in a statement it had called an "observation period" after the assassination three months ago of the prefect Claude Erignac, the French government's top representative on Corsica.

"This period was used by the French state ... and an arrogant and contemptuous press to try to discredit the whole [Corsican] people ... We are resuming our fight today," the FLNC said.

Police have arrested dozens of Corsican nationalists since the assassination of Erignac, but have not found any murder suspect. **Reuters, Ajaccio**

DANISH REFERENDUM

Tabloid urges No vote

Danes who support the European Union's Amsterdam treaty on closer integration confronted a new opponent yesterday when the country's biggest circulation newspaper launched a campaign against ratifying the document in the referendum on May 28.

"The limit has been reached," declared the tabloid Ekstra Bladet. "The erosion of Denmark as a nation state must stop."

In 1992 the paper urged readers to vote in favour of the EU's Maastricht treaty, which was first defeated, but was approved by a second referendum in 1993.

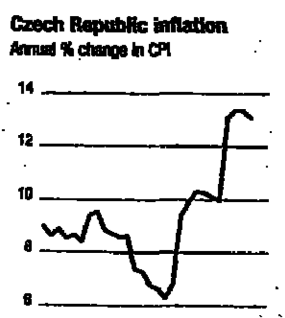
Ekstra Bladet takes pride in supporting the underdog against the establishment. In the present case, it is the only national newspaper which is campaigning against the Amsterdam treaty.

Other newspapers took Ekstra Bladet's conversion sufficiently seriously to carry articles analysing its possible impact on opinion in the referendum. But the conclusion was that Ekstra Bladet alone could not swing the vote one way or the other. **Hilary Barnes, Copenhagen**

ECONOMIC WATCH

Czech inflation levels off

Czech Republic inflation
Annual % change in CPI



Czech inflation, which has risen rapidly since a depreciation in May last year, levelled off in April, falling 3 percentage points to 13.1 per cent year-on-year from 13.4 per cent. Inflation rose 0.3 per cent month-on-month after edging up 0.1 per cent in March. Analysts believe inflation will fall to below 11 per cent by the end of the year as the stronger crown and austerity measures imposed after the currency crisis reduce import prices and consumption. Inflation has also been increased by big rises in indirect taxes, rents and utility charges, which will be raised again in July. Last year the central bank created a new net inflation measurement to screen out these factors and set a target of 5.5 - 6.5 per cent for the end of this year.

In March net inflation also fell 3 percentage points to 7.6 per cent and analysts believe the bank's target will be met, particularly as it will be compared against the higher base in the second half of 1997.

"The only danger is if the crown weakens around the elections [due in June]," said Boris Gomez at ING Barings in Prague. **Robert Anderson, Prague**

CORRECTION

Antonio Maria Costa

Due to an agency error, a picture caption in yesterday's FT wrongly identified Antonio Maria Costa, secretary-general of the European Bank for Reconstruction and Development, as Jacques de Larosière, the bank's former president.

'False figure' claim over Spanish deficit

By David White in Madrid

José Borrell, the Spanish Socialists' newly elected candidate for prime minister, yesterday accused the centre-right government of falsifying its budget deficit in a blistering onslaught in parliament.

In a combative and controversial debut as opposition leader, Mr Borrell launched into a sarcastic attack on government "self-satisfaction" which drew noisy barracking from the ruling Popular party (PP).

The clash came during the annual state of the nation debate, marking the first crossing of swords between Mr Borrell and José María Aznar, the prime minister.

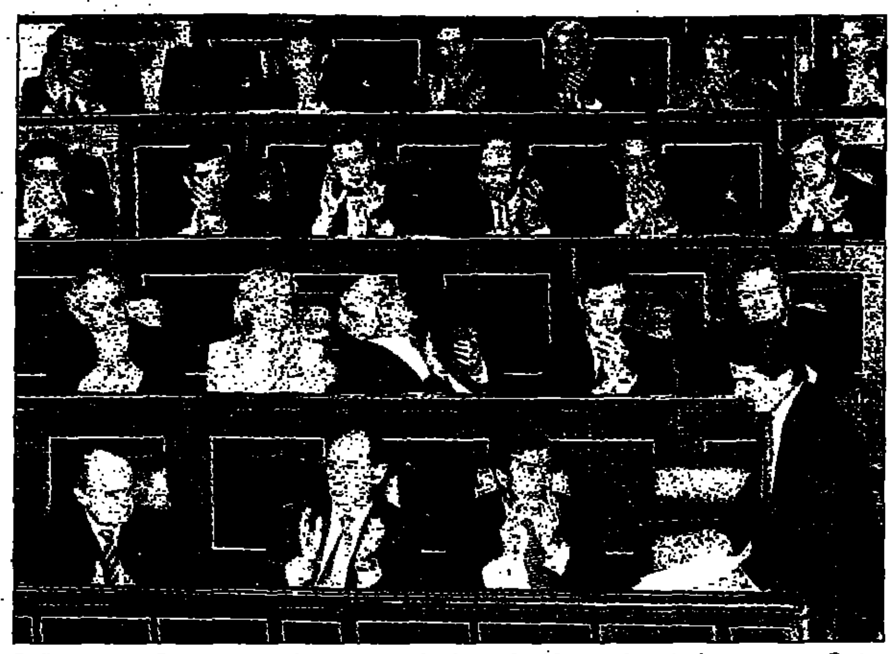
Mr Borrell's radical tone promised a fiery contest in the run-up to general elections, not due until early 2000. He accused the government of undermining the social security system and camouflaging a shortfall which would have excluded Spain from qualifying for the European single currency.

He claimed that with proper accounting the budget deficit should have been 4.3 per cent of GDP last year, against the official 2.6 per cent. He also attacked the government's record on health and education, and said it had "no project" in foreign policy.

Mr Borrell's outburst came after a weekend opinion poll in the pro-Socialist daily El País indicating that the opposition party had recaptured a 1.5 point lead over the PP.

He was replying to a sober opening speech in which Mr Aznar recalled Spain's strong recent economic performance and pledged further reforms to put the country on "a new path of prosperity". Mr Aznar promised to stimulate more job creation by removing obstacles to new hirings, encouraging more part-time working and more training.

He said Spain was placed to reduce unemployment, currently 19.6 per cent, to the level of European Union partners. "We now have the chance of cutting off the main problem we have been dragging with us for the past 20 years."



Parliamentary colleagues applaud Aznar as he sits down after his speech yesterday Reuters

Mr Aznar vigorously defended his government's recently announced income tax reform, due to take effect from next year and a main plank of its strategy in the next elections. He said high earners would pay a proportionally greater part of the burden, while 9m Spaniards earning less than Pta2m ($13,300) a year would see tax bills cut by 30 per cent.

The drop in tax revenues would not affect Spain's ability to meet the deficit targets laid down in its stability plan for the single currency, he said.

Mr Borrell said the government had no sense of direction over the euro.

Italy's second city is aiming to build on its assets

Milan is hoping to raise up to $3bn for development projects with a massive sale of municipal enterprises. **Paul Betts** talks to the city's mayor about his ambitious privatisation plans

Professor Giacomo Vaciago, one of the Italian prime minister's economic consultants and until a few days ago mayor of the northern city of Piacenza, recently touched off a storm by suggesting that the Rome city government privatise the Colosseum.

"I was joking," he said. "But some people took me seriously. I was visited by a group of Japanese journalists who asked me the price of the monument. I told them it was far too high."

In contrast, Milan, Italy's northern business capital, has already started privatising La Scala, the temple of opera and its most famous landmark.

"La Scala has been turned into a foundation to attract private capital," said Gabriele Albertini, the mayor of Milan, who is about to launch the most ambitious privatisation programme of any Italian city, designed to raise between L4,500bn and L5,500bn ($2.6bn and $3.15bn).

Mr Albertini is flying to London today for talks with bankers. The next day in Birmingham, he will attend a meeting with mayors of some of the world's most important "second cities" such as Chicago, Frankfurt, Barcelona, Lyons and Yokohama, held on the fringes of Thursday's G8 summit.

All these cities, he says, are attempting to co-ordinate policies to tackle the problems of development of large urban centres and increase their clout in their difficult relations with national governments.

Milan is Italy's biggest taxpayer. It contributes 11 per cent of the country's total annual tax receipts and accounts for 10 per cent of Italian national income.

"We only get back from Rome about 2 per cent of the taxes we pay, and there is little we can do about the level of national taxes and labour costs to make our city more appealing. But we own substantial assets and we can act on these to develop better services and infrastructures for our city," Mr Albertini said, explaining the reasons for his privatisation programme.

For sale are the city's electricity and gas company; its stake in the airports; the dairy; 84 pharmacists' shops; the fruit, fish and meat markets . . .

The town hall directly employs 20,000 people. Municipal companies selected for privatisation employ another 20,000 people.

They include the city's electricity and gas company AEM; its 85 per cent stake in SEA, the operator of Milan's Linate and Malpensa airports; the Milan dairy; 84 pharmacists' shops; the company that owns the city's fruit, fish and meat markets; the city's waste management and street cleaning company; the underground railway, bus and tram operator; and a separate underground transport engineering company.

"You may well ask why Milan owns a dairy and a string of chemists' shops. The reason is that long ago the city had to have outlets to supply quinine to citizens suffering from malaria, and milk was an essential part of guaranteeing their health," he explained. However, it was now a nonsense for the city to sell milk and distribute drugs.

The dairy and the 84 chemists' shops are expected to be sold early next year. The immediate task is to float on the stock market in July a 49 per cent stake in the AEM electricity and gas company, which Mr Albertini says will raise about L1,250bn. The remaining 51 per cent will be sold in three years' time.

Not content with simply privatising AEM, Mr Albertini wants to transform it into one of Italy's largest energy utilities, to compete against the state Enel electricity group and the Snam gas monopoly.

The other large asset controlled by the town hall is the airport company SEA, which is in the midst of a national controversy over the opening in October of its new L2,000bn international terminal at Malpensa.

The terminal will transform Malpensa into Italy's new northern hub and it has come under fire from Rome, which fears the new airport will steal traffic from its Fiumicino airport.

Mr Albertini has not fixed any timetable for the SEA sale. He first wants to see the new hub established, since the price will hinge on the success or failure of the controversial project.

Milan is also wrestling with problems such as the opposition of some local mayors in the greater Milan area to the construction of an express rail link from the new airport.

This has led Mr Albertini to propose a new system of local government for the Milan area. "The idea is to have a governor to chair a wider council in which all the local mayors of smaller boroughs would be represented.

"The governor would be the mayor of Milan, since he is elected by 1.3m people, and the voice of the other representatives would be proportionate to their electorates. This would avoid the mayor of a small community having a veto and blocking a project of much wider importance," he said.

Romania to press on with tough budget

By Stefan Wagstyl in Kiev

The Romanian government plans to press ahead today with a tough budget designed to cut government borrowing and reduce inflation, despite political pressure for spending increases.

Daniel Daianu, finance minister, promised yesterday that ministers would fight hard to get their proposals through parliament when debate starts today on the much-delayed 1998 budget.

"I think we have enough political support now to execute the budget and keep the economy under control," Mr Daianu told the Financial Times yesterday during the annual meeting in Kiev of the European Bank for Reconstruction and Development.

The budget has been postponed by a protracted political crisis in the multi-party coalition which has held a fragile grip on power since the 1996 general election.

The coalition, led by the Democratic Convention, has tried to pursue macro-economic stabilisation and market-oriented reform more coherently than the post-Communist governments which ruled Romania between 1990 and 1996.

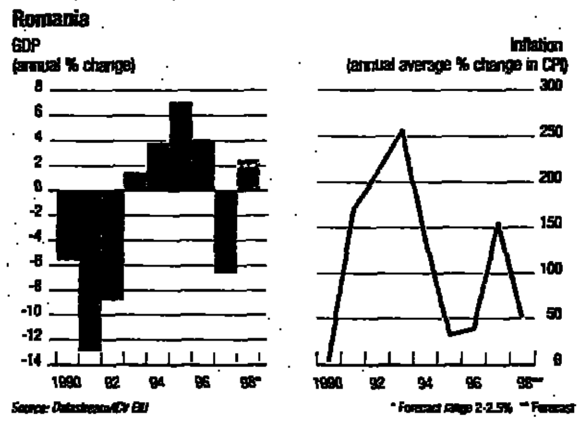
After an impressive start, bickering among the coalition partners delayed reforms and flared into a political crisis which ended with the resignation of Victor Ciorbea as prime minister last month and his replacement by Radu Vasile.

Last year, the squeeze on government spending contributed to a 6.6 per cent decline in economic output, and increases in artificially low, government-controlled prices for energy helped rises the inflation rate threefold to 151 per cent by December.

Mr Daianu is forecasting a drop in annual inflation to 45 per cent by the end of this year, falling to 20-25 per cent by the end of 1999. The economy is expected to stop shrinking this year and expand by 2-2.5 per cent next year. However, Mr Daianu said the achievement of these targets depended partly on implementing an ambitious sell-off programme designed to raise over $2bn, including sale of a 30 per cent stake in Romtelecom, the telecoms utility, and controlling stakes in two banks – Banc Post and the Romanian Development Bank.

Foreign investors were initially impressed by the coalition government and last year injected $1.6bn in foreign direct investment, taking the total to $3.8bn. But most came in the first few months and current levels are low. Christoph Rühl, EBRD economist responsible for Romania, said the country had great potential for investors "but everything depends on them getting their political act together".

Romania



UAE chooses F-16s for big fighter order

By Stephen Fidler in Washington

Lockheed Martin said yesterday the United Arab Emirates had ordered 80 advanced US-made F-16 fighter jets in a deal worth an estimated $7bn. Lockheed said it would begin deliveries in 2002 and that the package included new cockpit displays, an internal sensor and agile beam radar.

The announcement of the order, expected to be formally signed later in the year, will finally put paid to the ambitions of two European aircraft makers for the contract: Dassault, which makes the Rafale, and the multinational Eurofighter. The UAE has been seeking up to 100 aircraft to replace its fleet of ageing Mirage jets.

The UAE crown prince, Sheikh Khalifa bin Zayed al Nahayan, informed President Bill Clinton and the US vice-president, Al Gore that the emirate would make the purchase during talks at the White House...

The UAE has not previously ordered F-16s, known as Flying Falcons, and has been seeking versions with extra fuel tanks for longer sorties.

The chief of staff of the UAE armed forces, Sheikh Mohammad bin Zaid al-Khalifa said the UAE's remaining procurement plans included the possible purchase of British Aerospace Hawk training aircraft, and a pending tender for ocean-going patrol boats in a programme known as Liwa. The UAE could make a decision on the Liwa programme next year.

Last December, the UAE ordered 30 Mirage 2000-9s from Dassault Aviation of France in a deal said to be worth $2.6bn.

The announcement comes ahead of a trip to Texas on Friday by Mr Gore, where he will tour the Lockheed Martin plant in Fort Worth where the F-16 is assembled.

According to the company, Mr Gore would make an announcement that would bring thousands of jobs to Texas. Lockheed Martin has recently announced its intention to lay off up to 2,000 of its 11,000 workers there.

The UAE's purchase is a boost for Lockheed Martin because the US Air Force has largely completed its purchases of the aircraft which will be replaced by the Joint Strike Fighter. The UAE order would allow Lockheed to sustain its production line towards 2005, after the last delivery currently planned to the US Air Force is made in 2001. Lockheed Martin is competing against Boeing to manufacture the Joint Strike Fighter.

The UAE's purchase of the

Announcement has put paid to European ambitions

F-16 would also benefit Northrop Grumman which will make the radar for the aircraft.

● British Aerospace is to supply 18 Hawk trainer aircraft to Nato's new flying school in Canada under a £350m ($570m) contract, adds Alexander Nicoll, Defence Correspondent.

Bombardier of Canada, the prime contractor for the Nato programme, has an option on a further eight Hawk jets which would increase the value of the order to £450m, BAe said. The contract includes supply of spares and maintenance.

Nato air force pilots will provide training at the school, with a team from Bombardier, BAe, Raytheon, CAE Aviation and Frontec responsible for the aircraft, simulators and airfield services.

Rival regulators in EU and US air their differences

Officials clash over approach to setting rules for transatlantic airline alliances

By Michael Skapinker, Aerospace Correspondent

In their recent exchange of letters, Charles Hunnicutt and Karel Van Miert concluded by hoping they could work together in harmony. But the correspondence between the US assistant secretary for aviation and the European Union's competition commissioner was otherwise short on sweetness.

There are differences between us, Mr Hunnicutt wrote. "I want to be sure you have a clear understanding of their nature." Mr Van Miert replied: "It appears that you have not been given full information." Much of what Mr Hunnicutt alleged was "absolutely false".

Yet the two officials are wrestling with the same problem: the most far-reaching changes in the airline industry in 20 years. And their proposed remedies for protecting air travellers are not as far apart as their language implies.

The cause of their exchange is the rush by airlines to conclude alliances. Transatlantic partnerships already exist between KLM of the Netherlands and Northwest Airlines of the US, and between Lufthansa of Germany and United Airlines of the US. Others, such as that proposed between British Airways and American Airlines, are awaiting regulatory approval.

This year, the international tie-ups have been followed by a wave of new domestic US alliances, involving all six of the country's biggest carriers. Northwest has taken a 14 per cent stake in Continental Airlines. American and US Airways have announced a marketing link-up and Delta Air Lines and United last month announced an alliance.

Whether domestic or international, the alliances all have the same object: allowing airlines to increase the number of destinations they can offer, without having to invest in expensive new aircraft and airport facilities. By linking with other carriers, the airlines can code share. This means they can sell seats on their partners' flights as if they were their own.

Delta said its deal with United did not require US government approval. The government has other ideas. Mr Hunnicutt said the departments of transportation and justice would scrutinise the domestic alliances. "The proposed alliances raise concerns about the continued ability of new entrants to enter underserved and overpriced markets," Mr Hunnicutt said.

Primary jurisdiction over the domestic alliances lies with the justice department. If it finds that they reduce competition, it will file suit in the federal courts. It could also require the alliances to spin off some of their operations or limit their co-operation on certain routes.

Mr Hunnicutt's department has principal responsibility for international alliances. It has already approved the KLM-Northwest and United-Lufthansa alliances and a tie-up between Delta, Swissair, Austrian Airlines and Sabena of Belgium. On routes where the alliance partners are particularly dominant, the US has insisted on "carve-outs". This means the partners have to continue to offer competing services and fares on these routes, instead of co-operating on schedules and pricing.

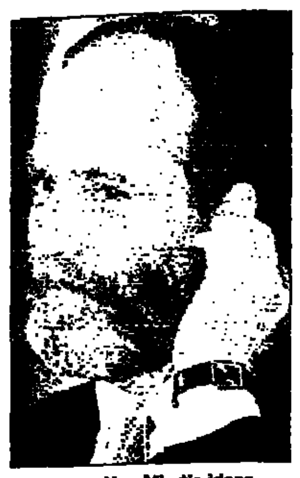
Mr Van Miert, who is scrutinising all the transatlantic alliances, is instead considering restrictions on the number of flights the alliance partners are allowed to offer on routes where they are dominant. This provoked Mr Hunnicutt's letter, which said: "Imposing reductions and freezes on network carriers' capacity will exert upward pressure on fares."

It was this assertion which prompted Mr Van Miert's jibe about Mr Hunnicutt not understanding Brussels' proposals. Alliances would only have to give up flights if other airlines were ready to offer competing services, he said. They would also only have the opportunity to take over the alliance partners' flights for one season. At the end of that season, any airline, including the alliance partners, could offer as many seats as they liked.

Mr Van Miert said he was unimpressed by the idea of carve-outs. "It is hardly conceivable that alliance partners would vigorously compete on such markets, while they are authorised to merge de facto all their activities on the rest of their vast networks. Monitoring such a remedy would in itself seem extremely problematic. This implies that it can not be considered a serious remedy for a competition authority."

But in spite of the harsh language, Brussels and Washington are arguing about means, not ends. Both propose regulation of routes on which alliance partners dominate. Mr Van Miert's approach might appear more complex, but no more so than separate regulations Washington is considering for ensuring that low cost US carriers can compete against large airlines.

Van Miert: Hunnicutt 'failed to understand' Brussels' proposals



Hunnicutt: Van Miert's ideas 'will put up ticket prices'

EU and ACP move closer

By Canute James in Kingston

The European Union and 71 countries with which it has a trade and aid treaty have narrowed their differences over a range of political issues.

The issues have been suggested by the EU for consideration in negotiating a pact to succeed the current agreement, which expires in 2000. The talks, which begin in September, are expected to be contentious.

Ministers from the EU and the African, Caribbean and Pacific (ACP) group have agreed to work to overcome their differences and to preserve their "historical partnership" in trade.

The ACP countries had earlier argued that the political issues which the EU wants in a successor pact to the Lomé Convention suggested "foreign dictation" of their domestic affairs.

Europe had suggested that ACP states adopt political regimes which "will bind themselves contractually to the observance of certain standards of social and political conduct," according to ACP officials.

EU and ACP ministers agreed at a weekend conference that Brussels' proposals were "guidelines" on which they could be "flexible".

The meeting also resulted in some agreement among the ACP states about how to approach the negotiations in September, said Jean Ping, Gabon's tourism and planning minister.

Environmentalists accuse Paris and Bonn over lending standards

By Nancy Dunne in Washington

German and French resistance has blunted a drive by more than 140 environmental and civic groups to press export credit agencies to set environmental standards for their lending and guarantees.

The non-governmental groups had been pushing for a strong statement of support in the Group of Eight communiqué at this weekend's summit in Birmingham, England. However, objections by German and French representatives resulted in a weak endorsement in the draft already negotiated. It simply calls on representatives of industrialised countries to do "further work" on the issue and report to the Organisation for Economic Co-operation and Development next year.

US officials in the Commerce, Treasury and State departments yesterday were debating how to raise the issue during the summit. At least one official wanted it "raised at the highest levels".

Bruce Rich of the Environmental Defence Fund, one of the organisers of the effort, said the resistance showed the "hypocrisy" of the French and Germans, who present themselves as "green" at international environmental gatherings.

Environmental groups began to focus on export credit agencies after the World Bank and the US export credit agency refused to provide financing for the controversial Three Gorges Dam project in China on grounds of environmental damage and resettlement difficulties. Other agencies, however, backed the project.

The lack of environmental standards and transparency of export credit lending has resulted in "a double standard whereby these agencies are supporting projects and investments that would be unacceptable to publicly financed multilateral development banks and bilateral aid agencies," Mr Rich said. Besides Three Gorges, export credit agencies have providing financing for environmentally destructive mines which threaten protected areas; big coal-fired power plants and investments in "unsustainable exploitation of the earth's remaining intact tropical and temperate forests," he added.

In 1996, export credit agencies supported foreign sales totalling $432.2bn, more than 10 per cent of global exports, according to the International Union of Credit and Investment Insurers. Most of it was for short and medium-term transactions. However, more than $70bn went for long-term loans and guarantees for investments and projects in developing countries.

The International Monetary Fund estimates that 20 per cent of developing countries' long-term debt is owed to export credit agencies, more than is owed to the World Bank and IMF.

Brundtland champions fight against malaria

By Frances Williams in Geneva

The Group of Eight industrialised countries' summit in Birmingham this weekend is set to back a World Health Organisation (WHO) initiative to "roll back" malaria.

Gro Harlem Brundtland, who will be formally elected as director-general today by the WHO's 191 members at the annual assembly in Geneva, said the fight against malaria will be a priority for the WHO under her leadership, alongside tobacco. The former Norwegian premier and physician takes over from Hiroshi Nakajima of Japan in July.

Tessa Jowell, UK health minister, told the conference yesterday that the G8 leaders were expected to give "broad support" to a WHO-led anti-malaria initiative which aimed not only at tackling the disease directly but to build up countries' basic health systems to combat this and other diseases.

Dr Brundtland said this week she wanted to focus on malaria because "it's one of the big diseases – with 50m cases a year – and it is not being tackled today". In contrast with HIV/Aids, there was no well-resourced international commitment to rolling back the disease.

For African countries in particular, the economic as well as the health impact of malaria was devastating, reducing productivity, costing many working days lost through sickness and deterring foreign investment "because people don't feel safe about coming down with malaria".

Dr Brundtland also planned to step up the WHO's fight against tobacco, especially in Asia where per capita cigarette consumption is still increasing. She said the WHO would press developing countries to introduce tougher laws similar to those in the west to prevent children and young people being encouraged to smoke.

Dr Brundtland was given strong support yesterday by Donna Shalala, US health secretary, who said the US would "work with the WHO to help stop the global pandemic of tobacco-related disease and death".

Dr Brundtland repeated this week her commitment to moving health up the international political agenda, by emphasising the link between health and economic development.

She is also expected to make sweeping management reforms. Under Dr Nakajima, the WHO has been criticised for lack of focus, poor communications, mismanagement and croneyism that has lowered staff morale and sapped the WHO's authority.

Kiss that tells so much about Morocco's new prime minister

Roula Khalaf meets a lifelong fighter for democracy and justice offered a share of power and the chance to fulfil his dreams

When Abderrahman Youssoufi, Morocco's new prime minister, kissed King Hassan's shoulder rather than his hand in the first televised encounter between the two men after his nomination, Moroccans found the moment full of symbolism.

It told them that the 73-year-old leader of a party that had been in opposition since Morocco's independence had entered into a partnership with the palace in which Mr Youssoufi would respect the monarchy but work to his own agenda.

Mr Youssoufi formed a coalition government in March led by his Union Socialiste des Forces Populaires. His party had emerged as the largest in last November's legislative elections, but with only 57 seats in the 325-member lower house, and it had denounced irregularities in the poll.

Aides of the king, including Driss Basri, the powerful interior minister, kept their posts in the new government. With the king retaining many powers under Morocco's new constitution, it was easy to dismiss both the elections and Mr Youssoufi's nomination – the change of direction known as alternance – as a gimmick.

Slowly, however, many Moroccans are realising that the alternance can be far more than cosmetic. Mr Youssoufi's reputed sincerity and determination have generated a long-lost sense of optimism in a country plagued by acute social problems and political apathy. The fact that he is personally seen as being divorced from the old monarchical regime has raised hopes that the system might begin to be shaken up.

The new prime minister knows how daunting are the tasks that face his government and the dangers of failure. He has taken over at a time when the question of the Western Sahara – the disputed territory which Morocco claims as sovereign and where the Polisario Front is seeking independence – is again preparing to be dealt with in a referendum.

But it is Morocco's social problems that will consume most of his attention.

"We want to institute fundamental reforms because it is unforgivable that at the end of the 20th century and after 40 years of independence, we should continue to have more than a 50 per cent rate of illiteracy, that our education system should be in crisis, that rural areas should be in a state of unimaginable neglect, some without water or electricity," he says.

A lawyer from Tangiers and human rights activist, Mr Youssoufi spent most of his life struggling for democracy and social justice. He survived imprisonment, kidnapping, and trials in which a prosecutor once asked for the death penalty. For more than 15 years he was exiled in France.

His lifelong struggle goes on: "There's an office boy and a Mercedes downstairs, but I am not conscious of having changed, not in my head, not in my spirit," he says. "But now I have the chance to oppose under-development with the capacity to make a difference."

His government, however, has little financial leeway to meet rising expectations and fulfil election promises. The budget deficit is forecast to reach 4 per cent this year, and about three-quarters of the budget is taken up by debt service and public salaries.

Mr Youssoufi said he would look for money everywhere, but that he would find it mostly through savings in the way the country is managed. "We propose to run the country more rationally, institute morality in public life and create confidence and stability by providing an institutional and psychological system in which investors can have confidence." This means reforming the administration and the justice system, which have long been denounced as big obstacles to investment.

Entrepreneurs and business leaders have greeted his government with enthusiasm. Already the justice minister is cleaning up the system, taking measures against 50 magistrates, a move which would have been unheard of a few years ago.

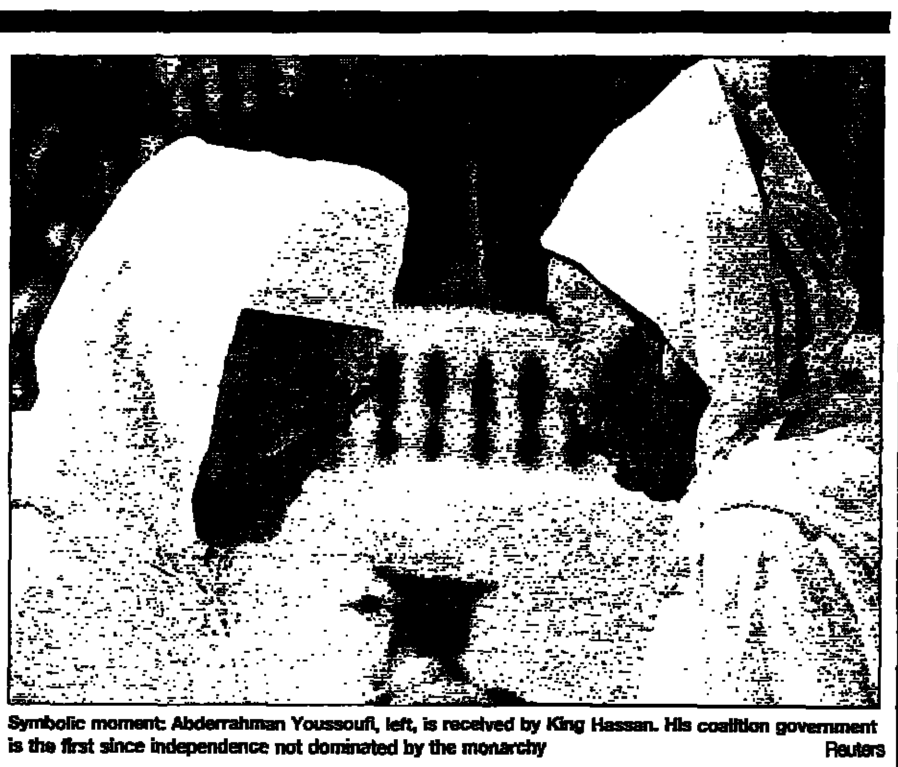
But no one in Morocco is under the illusion that Mr Youssoufi can reform an inefficient, bloated and corrupt administration without fighting, and perhaps losing, many battles. The challenge for Mr Youssoufi is that he will come up against the entrenched powers of Mr Basri – effectively prime minister for the past 20 years – and powerful business interests.

Mr Youssoufi insists that the potential for gridlock in the government will be mitigated by the fact that the king – who will now play his favourite role of arbiter – has urged every government member to work with the prime minister.

If he is confident of the king's backing, it is because, like the king, he knows the perils of allowing Morocco's social problems to persist. A rare country in the Arab world to have a developed secular opposition, Morocco's experience with alternance aims to thwart the rise of a mass Islamist movement.

The most moderate of Morocco's Islamists are now in parliament, but the much larger and more radical movement, Al Adl wal Ihsan, operates in the shadows and its leader, Sheikh Abdelsalam Yassine, is under house arrest. Mr Youssoufi, however, has promised to close all outstanding human rights files and this is expected to include the freeing Sheikh Yassine.

If Mr Youssoufi should be seen to fail, the Islamists would be able to capitalise on the discontent. With the country entering a period a change and King Hassan due to be succeeded by his son, the Islamists are watching for every sign of weakness from the monarchy and the political class.



Symbolic moment: Abderrahman Youssoufi, left, is received by King Hassan. His coalition government is the first since independence not dominated by the monarchy — Reuters

G15 SUMMIT

Leaders fail to co-ordinate trade efforts

Economic weakness and the group's diversity are seen as reasons for slow progress towards combined strategies

By Mark Huband in Cairo

Members of G15 group of developing countries are struggling at their summit in Cairo to find a common voice with which to fight for their interests.

While leaders at the group's eighth summit called on each other this week to co-ordinate efforts to increase their share of world trade, little was agreed that would channel those efforts into action.

Officially, the aims of the G15's members – in fact they total 16 – are to increase trade among themselves from the current 3 per cent of their total $800bn global share, and to function credibly as the global voice of leading developing economies.

While the first of these aims is far from becoming a strategy, the second has been widely vaunted. But the three-day Cairo summit failed to bring tangible moves in this direction, largely by design.

Coupled with the relative weakness of the G15 states beside the economies of the G8, some regard the group's diversity as the reason behind the slow progress towards combined strategies, when countries as diverse as Senegal and Malaysia are seeking common ground.

"In a forum such as this you don't talk about tangible things," said Amr Moussa, Egypt's foreign minister. "You talk about co-operation and more understanding and awareness."

Instead of drawing up a common strategy, each member used the forum to project its own case. The strongest messages were aimed at G8 countries and the International Monetary Fund, which were absent from the meeting, rather than formalising a strategy for north-south dialogue.

Indonesia's plight was placed at the top of the summit agenda by President Suharto, who will spend almost a week in Egypt despite unrest at home.

In a rare speech, he told the summit that Indonesia's crisis "has persisted with no indication that it would soon abate. It has also taken a heavy toll on the social and political situation in the region, as it has brought about massive unemployment which could trigger social problems, including the further spread of poverty, a rise in the incidence of crime and threats to political stability," he said.

A draft communiqué, to be finalised today, states that "the global implications of the financial crisis in east and south-east Asia depend not only on how the crisis is managed in the countries concerned, but also on the policy response of the relevant international financial institutions. Financial assistance should not be accompanied by unnecessary additional conditionality."

The need rather than the method of internal G15 and north-south co-operation emerged from a three-hour closed-door debate on the Asian crisis, which "has reminded us of the deep interdependence of the world economy. Marginalisation is no longer an option," said Hosni Mubarak, the Egyptian president.

He called for the G15 countries to share information on financial policies, capital inflows and exchange and interest rate policies. But it appeared the final communiqué would not include any commitment along these lines.

Are you sure you know the world's top fifty banks*?

1. **HSBC Holdings.** London, United Kingdom.
2. **Bank of Tokyo - Mitsubishi.** Tokyo, Japan.
3. **Crédit Agricole.** Paris, France.
4. **Chase Manhattan Corp.** New York, USA.
5. **Citicorp.** New York, USA.
6. **Deutsche Bank.** Frankfurt, Germany.
7. **BankAmérica Corp.** San Francisco, USA.
8. **ABN AMRO Bank.** Amsterdam, Netherlands.
9. **Sumitomo Bank.** Osaka, Japan.
10. **Union Bank of Switzerland.** Zürich, Switzerland.
11. **Fuji Bank.** Tokyo, Japan.
12. **Dai-Ichi Kangyo Bank.** Tokyo, Japan.
13. **Sanwa Bank.** Osaka, Japan.
14. **Sakura Bank.** Tokyo, Japan.
15. **Bank of China.** Beijing, China.
16. **NationsBank.** Charlotte, USA.
17. **Barclays Bank.** London, United Kingdom.
18. **Industrial Bank of Japan.** Tokyo, Japan.
19. **Groupe Caisse d'Epargne.** Paris, France.
20. **National Westminster Bank.** London, United Kingdom.
21. **Banque Nationale de Paris.** Paris, France.
22. **Crédit Suisse Group.** Zürich, Switzerland.
23. **JP Morgan & Co.** New York, USA.
24. **Rabobank Nederland.** Utrecht, Netherlands.
25. **Industrial & Commercial Bank of China.** Beijing, China.
26. **Compagnie Financière de Paribas.** Paris, France.
27. **Société Générale.** Paris, France.
28. **Swiss Bank Corp.** Basle, Switzerland.
29. **Dresdner Bank.** Frankfurt, Germany.
30. **First Chicago NBD Corporation.** Chicago, USA.
31. **Lloyds TSB Group.** London, United Kingdom.
32. **Long-Term Credit Bank Of Japan.** Tokyo, Japan.
33. **Tokai Bank.** Nagoya, Japan.
34. **Westdeutsche Landesbank Girozentrale.** Düsseldorf, Germany.
35. **Commerzbank.** Frankfurt, Germany.
36. **Banc One Corp.** Columbus, USA.
37. **Crédit Mutuel.** Paris, France.
38. **National Australia Bank.** Melbourne, Australia.
39. **Asahi Bank.** Tokyo, Japan.
40. **First Union Corp.** Charlotte, USA.
41. **Crédit Lyonnais.** Paris, France.
42. **ING Bank.** Amsterdam, Netherlands.
43. **Abbey National.** London, United Kingdom.
44. **Bayerische Vereinsbank.** Munich, Germany.
45. **Banco Santander.** Santander, Spain.
46. **Royal Bank of Canada.** Montreal, Quebec, Canada.
47. **Cariplo.** Milan, Italy.
48. **Dexia.** European Union.
49. **Wells Fargo & Co.** San Francisco, USA.
50. **Canadian Imperial Bank Of Commerce.** Toronto, Ontario, Canada.

DEXIA

Dexia, the European banking group created by the merger of Crédit local de France and Crédit Communal de Belgique, reported total assets of 185 billion euros at the end of 1997. Dexia is the European leader in the financing of public service facilities and is also active in commercial banking and asset management.

http://www.Dexia.com

CRÉDIT LOCAL de FRANCE

BANQUE Crédit Communal

*Source : The Banker Top 1,000 list at 1 July 97 based on Tier One Capital, size vs total assets, Capital assets ratio, pre-tax profits, real profit growth, average return on equity, return on assets, operating ratio, equity ratio, rating.

HOUSEHOLD SURVEY ECONOMISTS PUZZLED OVER LONG-TERM FALL IN REAL INCOME DESPITE ECONOMIC GROWTH

Canadians' wages fall in 15 years


Paul Martin: Canada is closing gap with US

By Edward Alden in Toronto

Canadians are making less money than they did 15 years ago and average real incomes fell 6 per cent between 1990 and 1995, according to a federal study published yesterday.

The comprehensive survey of Canadian households, conducted every five years, showed that economic growth over the last two decades has not lifted the incomes of ordinary Canadians. About 21m earners brought home an average income of C$25,196 (US$17,870) before taxes in 1995, compared to C$26,784 in 1980, in inflation-adjusted 1995 dollars.

While declining income in the early 1990s was expected after the recession in central Canada, the longer-term stagnation of wages continues to puzzle economists.

The main reason appears to be that Canada's economic growth over that 15-year period lagged behind its main competitors, while productivity fell well behind that in the US. Paul Martin, finance minister, said in a recent interview that Canada had closed the gap with the US in the last several years. But a strengthening economy has yet to fatten most Canadians' wallets.

Earnings have plunged over the last three decades and only a substantial increase in government income support prevented a larger drop in income. In 1995, wages were just 75 per cent of total individual incomes, down from 78 per cent in 1990 and 86 per cent in 1970. Government transfers doubled in this period.

The losses fell entirely on men, whose incomes dropped 7.6 per cent between 1980 and 1995. Women's income, in contrast, grew 15 per cent over the same period – but men still earned an average of C$31,117 in 1995 compared with C$19,208 for women.

Charles Beach, a Queens University economist, said the figures for men reflected the disappearance of well paid primary resource and blue-collar manufacturing jobs under the pressures of technological change and growing international competition from lower wage countries.

Women, in contrast, had been entering the workforce faster than in any other industrialised country, but generally in lower-paid service jobs. That had helped keep the average wage figures down, said Mr Beach.

The study provides a detailed snapshot of who earns what in the country. Young people between 15 and 24, for instance, saw their incomes fall almost 20 per cent between 1990 and 1995. Since 1980, the average real wage for young people dropped from C$13,191 to C$8,199.

Immigrants who arrived in Canada since 1990 made one third less than non-immigrants. But the average earnings of pre-1975 immigrants are 30 per cent higher than non-immigrant Canadians, indicating that while language remains a barrier for newcomers to Canada, they will prosper in the long run.

The highest-paying occupations in 1995 were judges, physicians and surgeons and dentists. The lowest-paying jobs were petrol station attendants, farmworkers and bartenders.

Guatemala files lawsuit on tobacco

By Mark Suzman in Washington

Guatemala yesterday became the first foreign state to file a lawsuit against the US tobacco industry in a US federal court, in an attempt to recover the costs of treating tobacco-related illnesses.

The move will add to the mounting legal difficulties faced by US tobacco companies, already fighting a wide range of similar lawsuits from individual US states as well as possible legislation that would require them to reimburse the government for such costs.

Prospects for the new case are uncertain, but if successful it would almost certainly trigger a number of suits by other countries.

Acislo Valladares Molina, Guatemalan attorney-general, said the suit was justified because the Guatemalan tobacco industry was dominated by US-based companies, including Philip Morris with 70 per cent of the market and Brown & Williamson, a subsidiary of British American Tobacco, with 20 per cent. Other defendants in the lawsuit include the Tobacco Institute and the Council for Tobacco Research, both industry research groups. Fleming, Hovenkamp & Grayson, a Houston firm, representing Guatemala, said these groups had claimed as recently as 1991 that tobacco products had not been proven to cause substantial health damage.

Using language similar to that being employed in the existing US lawsuits, several of which have already been settled out of court, Guatemala's case alleges the US tobacco industry conspired to conceal scientific and medical information about the health risks of tobacco.

The suit says that Guatemala is seeking treble the damages the country has had to pay for state-sponsored treatment of tobacco diseases, but does not cite a specific amount. Mr Molina previously said $500m would be a likely approximate figure.

US tobacco bill could cost industry over $850bn

The dispute over the impact of proposed tobacco legislation intensified yesterday as Wall Street analysts told Congress it would cost the industry over $850bn, much more than the administration estimates, Mark Suzman writes.

The bill, expected to come to a full Senate vote this month, aims to raise cigarette prices by $1.10 a pack over five years, which the Treasury estimates would cost the industry $521bn over 25 years.

However, in testimony to the Senate judiciary committee yesterday, Gary Black of Sanford C. Bernstein, said the cost estimates contained in the bill seriously understated the real costs to the industry. He said it would actually raise the price per pack by approximately $2.78, bringing the total cost to an unsustainable $862bn.

Martin Feldman, an analyst at Salomon Smith Barney, also testified that the $1.10 estimate was implausible.

Missile system fails fifth trial

The Pentagon's costly missile defence system yesterday failed a fifth flight test, because of a faulty booster rocket, AP reports from Washington. The Theatre High-Altitude Area Defence (THAAD) system, built by Lockheed Martin, failed to intercept a target for the fifth consecutive time in a flight test at White Sands Missile Range.

The THAAD system is designed to provide US forces in the field with protection from attack by Scud and other short- and medium-range missiles.

THAAD is designed to provide broader defensive coverage than the Patriot missile system used in the 1991 Gulf war.

The failure could have implications for the debate over the development of a national missile defence shield, which Senate Republicans are pressing for. The legislation, which already has 50 sponsors in the chamber, is opposed by the administration and its Senate allies, who are threatening to block the bill through delaying tactics.

The bill has wide Republican support. It would direct the Pentagon to deploy such a system as soon as technology permitted.

The administration's present programme requires identifying an emerging ballistic missile threat first; then, if necessary, three years would be provided to put the programme into effect.

Critics argued that the legislation would commit the US to deploy a technology that has not even been developed yet.

The Pentagon this month awarded Boeing a $1.6bn contract to develop a defence against ballistic missiles. Boeing will design, develop, test and integrate a variety of components for a limited national missile defence system, but no decision has been made on putting such a system in place.

NEWS DIGEST

BUSINESSMAN'S RECORD DONATION

Pennsylvania business school given $40m

The Wharton School, the University of Pennsylvania's business school, yesterday said it had received a donation of $40m from a Utah businessman, the largest single donation ever made to a business school by an individual.

The gift, from Jon Huntsman, the founder and chief executive of the Huntsman Corporation and a 1959 graduate of the school, highlights the increasing emphasis which business schools are placing on raising money, usually from individuals.

Mr Huntsman's gift is also unusual in that he has not insisted on attaching his own name to the school. It beats the record set last year by Gordon Marshall, the Californian businessman who donated $35m to the Gordon S. Marshall School of Business at the University of Southern California.

Competition among the largest international schools to recruit teaching staff with high salaries has forced them to look for extra sources of finance, often from their graduates. Endorsements from successful business executives can also be a useful marketing tool.

Earlier this year the University of South Carolina's Darla Moore School of Business received $25m from Darla Moore, the chief executive of the Rainwater investment company. John Authers, New York

2000 PRESIDENTIAL ELECTION

Bush ahead of Gore in poll

George Bush, the Republican governor of Texas, had a narrow edge over Vice President Al Gore in a USA Today/CNN/Gallup Poll on the 2000 presidential election. The paper reported that 50 per cent of those surveyed in a weekend telephone poll favoured Mr Bush, son of the former president, compared with 46 per cent for Mr Gore. However, Mr Gore led 62-32 in an imaginary race against the House Speaker, Newt Gingrich. Republicans and Democrats were also asked who they favoured for the nomination of their respective party. Mr Gore was picked by 51 per cent of Democrats, followed by 12 per cent for Jesse Jackson, the civil rights activist, 8 per cent for former Senator Bill Bradley and 7 per cent for the House minority Leader, Dick Gephardt.

Mr Bush led among Republicans with 30 per cent, followed by Elizabeth Dole with 14 per cent, Jack Kemp and former Vice President Dan Quayle with 9 per cent each, Steve Forbes with 7 per cent and Mr Gingrich with 6 per cent. No other Republican got above 4 per cent. AP, Arlington

PEPSI ANTI-TRUST CLAIM

Coca-Cola actions 'legal'

Coca-Cola is rejecting claims by PepsiCo, the US maker of Pepsi-Cola, that it is illegally using its market clout to keep Pepsi out of US restaurants and fast food chains.

Last week PepsiCo filed an anti-trust law suit, its first against Coca-Cola, claiming its bigger US rival has been telling independent restaurant suppliers that it will stop letting them have any Coke if they start supplying restaurants with Pepsi too.

However, Coca-Cola said this week there was nothing illegal about the company's practices. If distributors who supply Coke also want to supply Pepsi, "we believe we have the freedom of choice to take our business elsewhere," Coke said. William Lewis, New York

ASIA-PACIFIC

NUCLEAR TEST EUPHORIA AND PRIDE ACROSS COUNTRY BUT MARKETS NERVOUS OVER POSSIBLE LOAN OR TECHNOLOGY SANCTIONS

Jubilant India shrugs off world disapproval

By Amy Louise Kazmin in New Delhi and Krishna Guha in Pune

A few hours after India's triple nuclear test on Monday, government officials offered journalists *ladu*, the symbolic equivalent of champagne. A box of the traditional Indian sweets – usually distributed at birthdays and weddings – were passed around the room.

The same sense of jubilation carried over into newspaper headlines yesterday. In a front-page editorial, the Indian Express said successful tests mark "a time for popular euphoria and celebration". "India joins N-weapons big league," declared the Business Standard, a leading financial daily. "India explodes nuclear veil," pronounced The Telegraph. The Financial Express, a sister publication, called the triple tests a "daring international feat".

Pakistan's *The Muslim*, May 12

The Indian Express, May 12

"There is a tremendous feeling of pride," said Anand Mahindra, managing director of Mahindra and Mahindra, one of India's biggest companies.

With a simmering feeling that they have been pushed around too long, Indians are hopeful that the tests will grant them the recognition they have long craved.

Even India's opposition politicians – ever ready to criticise political rivals – were mum. I.K. Gujral, former prime minister, whose conciliatory stance towards Pakistan annoyed Indian hawks, publicly defended the test.

Most analysts said they believed there was a widespread political consensus within India about the test. The financial markets, however, were skittish. When the Bombay Stock Exchange opened it promptly fell 2.6 per cent.

Some analysts fretted that world disapproval could put pressure on the rupee – so far unmoved – and that loans from the World Bank or International Monetary Fund might be in jeopardy. "The Indian economy needs this like a hole in the head," said the head of research for a foreign brokerage.

Executives in the computer software industry, a business that relies heavily on exports and imports of high-tech equipment, also expressed concern that they could find the going tough if the US decides to impose a technology blockade.

But others said that even if the world community expresses outrage or imposes some sanctions, their anger, and the repercussions, will eventually pass as long as India holds to its position.

"We have to stand by it now," said Rakesh Makhija, president of Tata Honeywell, an engineering company. "See China, see France – they do all sorts of things. There is uproar all around the world. But when it dies down, they get their way."

Sharif under pressure to respond in kind

By Farhan Bokhari in Islamabad and Alexander Nicoll in London

Nawaz Sharif, Pakistan's prime minister, was coming under domestic pressure yesterday to respond in kind to India's nuclear tests.

Action was demanded by critics who denounced Mr Sharif for his resumption of peace talks with India last year.

Pakistan's nuclear programme has been shrouded in mystery since it stepped up research after India's first nuclear explosion in 1974. Gerald Segal of the International Institute for Strategic Studies in London said the general assumption was that Pakistan possessed some form of nuclear arsenal, which could be delivered by aircraft.

"It's only a reasonable guess that Pakistan has a deployable nuclear capability, but nobody knows just how many."

Pakistan has been working for many years on the Hatf-1 and Hatf-2 missiles. Little is known about their capabilities, and experts believe it is unlikely that it could have developed nuclear warheads.

Mr Segal said a "clever" approach by Pakistan would be to reserve the right to carry out a nuclear test but to show understanding of international concerns. "My fear is that it may carry out a test because the military logic will be that it could do so in retaliation (to India) at relatively little cost, and India will be blamed."

Mr Sharif made clear he was not ruling out a retaliatory test. "I wish to assure the nation that Pakistan has the capability to respond to any threat to its security," he said. "On this there can be no compromise and we alone will determine what is essential for our security."

Pressure on him to act was growing. "It is the policy of appeasement that has emboldened the Indians," said Murtaza Pooya, former chairman of Islamabad's Institute of Strategic Studies. "This is the price Pakistan now pays for thinking that friendship could break new ground."

Hameed Gul, a respected retired general, said: "If we don't respond to India now, we should prepare for war in a couple of years, because there will be a clash at some point."

Abdul Qadeer Khan, Pakistan's top nuclear scientist, said recently: "If Pakistan wanted to do something it could do it much more quickly than most people think. We don't make nuclear weapons but the capability is there." Yesterday, he was quoted in newspapers as saying: "We are like a cook waiting for the orders."

Liberal opinion urged restraint, cautioning against the effect of western sanctions if Islamabad followed New Delhi in carrying out a test.

China condemns – but Russia urges restraint

By James Harding in Shanghai and Chrystia Freeland in Moscow

China yesterday issued a terse response to New Delhi's show of atomic strength, expressing "grave concern about India conducting nuclear tests".

In Moscow, however, while Russian President Boris Yeltsin criticised India's nuclear tests, he insisted that the world should confine its punitive reaction to diplomatic pressure.

China's carefully worded statement offered a cautious condemnation of the Indian government's decision to resume nuclear testing, but refrained from any comment that might further inflame tensions between the world's two most populous nations.

New Delhi's nuclear tests added to the strains on the already febrile relationship between Beijing and New Delhi, which soured sharply last week after India's George Fernandes, defence minister, accused China of being the country's greatest security threat.

By contrast, India is a traditional Russian ally, with co-operation between the two countries including arms sales and the construction of civilian nuclear reactors in India.

"India has let us down with its explosions," Mr Yeltsin said, "but I think that by diplomatic means and with our visit to India [expected later this year] we should bring about a change in its position."

China's short and measured comment, on the other hand, noted the progress in world efforts in nuclear arms reduction: "Under such circumstances, India's conducting of nuclear tests runs against international trends and is detrimental to the peace and stability in South Asia," China's foreign ministry said.

One western diplomat yesterday said China's response was calculated to ease tension: "The Chinese want to make noises to the Indians, but they do not want to respond in belligerent terms. Getting relations on a stronger footing with the Indians has been a major plank of Beijing's foreign policy."

China and India went to war briefly over a border dispute in 1962, but in recent years both sides have sought to improve ties through confidence building measures that culminated in a visit to India by Jiang Zemin, the Chinese president, in 1996.

India's nuclear tests have also raised the question of whether Beijing will be tempted to resume nuclear testing in response. China conducted what it said would be its last nuclear test in July 1996 and, two months later, signed the Comprehensive Nuclear Test Ban Treaty, imposing a moratorium on future nuclear testing.

WASHINGTON RETALIATION THE BIGGEST IMPACT OF ANY SANCTIONS MOVE WOULD BE FELT VIA THE MULTILATERAL INSTITUTIONS

US action likely to be through World Bank

By Stephen Fidler in Washington

The US declared yesterday its clear intention to implement a law sanctioning India for its conduct of three nuclear tests.

There is no multilateral mechanism under which sanctions can be imposed because the only international non-proliferation agreement it has signed relates to chemical weapons. It is not a signatory to the Nuclear Non-Proliferation Treaty or the Comprehensive Test Ban Treaty.

However, the US has its own law – the Nuclear Proliferation Prevention Act of 1994, sponsored by Senator John Glenn – which mandates the president to impose sanctions on any country not declared a nuclear weapon state that explodes a nuclear device.

The sanctions would, among other things, end almost all US foreign aid and credits, except for humanitarian purposes, stop defence sales and stop licences for munition sales. It would mandate the US to vote against any loan in the International Monetary Fund and World Bank or the Asian Development Bank, except those to be used to buy food, and would stop US commercial banks from lending to India.

However, the president may on national security grounds delay the sanctions for 30 days, but there was no immediate word yesterday on whether this would be considered.

Toby Dalton, of the Carnegie Endowment Non-Proliferation Project in Washington, said that if India indicated its intention to sign the Comprehensive Test Ban Treaty, this waiver might be used.

The biggest impact would probably be felt through the multilateral financial institutions given the modest level of direct US aid, which barely exceeds $100m a year. The US has no majority in the institutions, but given new loans are usually only brought to the board when there is a consensus to approve them, a US No vote in effect blocks a new loan, at least at the IMF and the World Bank.

However, loans already approved are likely to continue to be disbursed, so any financial impact would be only gradual.

India has no programme with the IMF currently, but is one of the largest current borrowers from the World Bank. At the end of the Bank's last fiscal year, it was the largest borrower from the World Bank group, owing $35bn. Of this, $22.4bn was to its soft-loan affiliate. Loans from the Bank's main lending arm in the last fiscal year amounted to $1.52bn.

Australians get budget 'with an eye on election'

By Gwen Robinson in Canberra

The Australian government has unveiled the country's first budget surplus for nearly a decade to widespread approval in spite of evidence of the negative impact of Asian economic turmoil on growth and employment.

More significantly, the budget for the year to June 1999 provided relief for John Howard, the prime minister, from public criticism of his government's role in Australia's waterfront dispute and fuelled speculation about an early election.

The dispute, which paralysed the country's docks in April, led to accusations against the government of illegal conspiracy with dock operators to break the maritime union's monopoly on waterfront labour.

Mr Howard suggested before the budget was unveiled that he was contemplating an early election, possibly by late July. The government is not due to go to the polls until mid-1999. But after the Senate's rejection in March of government proposals to amend an aboriginal land rights bill, Mr Howard has the authority to dissolve both houses of parliament and call an election at any time.

In a budget which was clearly designed to pave the way for sweeping tax reforms later in the year, Peter Costello, Australian treasurer, announced an underlying surplus of A$2.7bn (US$1.7bn) for the year to June.

"We're back in the black, we're back on track," Mr Costello told parliament in Canberra on Tuesday evening. Mr Costello announced plans for new spending in the budget of about A$1.4bn, mainly on health, after two years of large spending cuts since the government won power in early 1996.

Economic growth, however, would slow to 3 per cent in the year, down from 3.25 per cent forecast earlier and from 3.75 per cent in the current year to June. Inflation was expected to rise to 2.75 per cent from 1.5 per cent and unemployment would remain at around 8 per cent, Mr Costello acknowledged.

The current account deficit, meanwhile, was forecast to rise to an average 5.25 per cent of gross domestic product, or about A$31bn, from 4.5 per cent, or A$25bn, in the current year. Mr Costello blamed the slowdown in Asian economies, which he said would cut into Australia's export returns.

John Edwards, senior economist at HSBC Markets, said: "Mr Costello's objective in this budget was not to produce a reliable guide to government accounts over a three-year time frame, but to position the government in the coming election campaign."

Markets discount Estrada lead

By Justin Marozzi in Manila

Financial markets yesterday shrugged off early evidence of an overwhelming presidential election victory for Joseph Estrada, whose populism is perceived in Philippines business circles as a potential threat to economic stability.

A nationwide exit poll from SWS, the country's most credible pollster, yesterday gave Mr Estrada a runaway lead on 38.77 per cent, with Jose de Venecia, the administration candidate, trailing in second place on 16.46 per cent.

In intra-day trading the peso strengthened from 39.56 pesos to the US dollar at close on Friday to 38.40 before closing at 39.13. The stock market ended up 4.56 points at 2,214.52 points.

Business had taken fright at the prospect of Mr Estrada's victory because he was seen as weak on economic issues.

Some were reassured yesterday when Mr Gabriel Singson, the highly regarded governor of the central bank, said he would remain in office, though he failed to indicate for how long. His term ends in July 1999.

Mr Singson, who had been criticised for laying too much emphasis on maintaining the stability of the peso, said he would not stand down until he had helped ensure stability for the new administration, which will take office on June 30.

"I intend to continue for as long as I believe this is in the interests of continuity and bearing in mind what is best for the country," he said.

In recent days, Mr Estrada's camp had been eager to reassure investors there will be no policy reversals. The respected Domingo Siazon is likely to be retained as foreign secretary. Edgardo Esperitu, an experienced head of a local bank, is also expected to be appointed finance secretary by Mr Estrada.

Mr Esperitu said yesterday he would make the lowering of interest rates a priority. The central bank's overnight lending rate is 13.5 per cent, with banks' prime lending rates at 21 per cent.

Anton Romulo, head of sales at brokers SocGen-Crosby, said the market had already discounted an Estrada presidency. "It's very good news that the elections have passed peacefully. Ramos has done the dirty work and the reform policies are already set. It's now a question of implementation."

Mr de Venecia said Filipinos should await official results rather than believe unofficial polls. However, analysts thought the margin was too large for Mr de Venecia to have a realistic chance of winning without widespread intervention in the counting process by the administration.

Japanese wholesale prices drop

By Paul Abrahams and Gillian Tett in Tokyo

Japan's wholesale price index in April dropped 2.7 per cent year-on-year, underlying the dangers that the economy, already in recession, could be slipping into a deflationary cycle. Bonds surged on the data, pushing the yield on the 182nd benchmark government long bond as low as 1.295 per cent, before closing at a record low of 1.3 per cent

Officials admitted the economy was in a serious state. "The overall tone is very severe," conceded Hikaru Matsunaga, finance minister. Deflation is particularly alarming because consumers, knowing that prices will be lower in coming months, delay purchases. This is highly damaging for companies, because they are left with large stocks whose value rapidly depreciates. They are then forced to cut production, affecting employment and private demand.

Given lacklustre consumer demand and weak private capital investment, investors will be analysing today's trade figures. Exports, which until now provided important support to the economy, are expected to have fallen last month as the full impact of the Asian crisis hits home.

Market sentiment was also weakened yesterday by new concern about the state of some of Japan's financial companies. The life insurance sector in particular attracted scrutiny yesterday after some companies indicated they would soon cut the dividends they pay to customers because of financial pressures.

The move has been forced on them because the falling bond yields, low dividend yields and declining Japanese share prices have sharply reduced the revenues they receive from their investments, government officials said.

The news came as Eisuke Sakakibara, Japan's vice-minister of finance for international affairs, yesterday met the life insurance companies, but refused to disclose the contents of the discussion. However, the meeting fuelled speculation that some of the companies, which are due to report their results next month, may be in financial difficulty.

Paul Heaton, analyst at Deutsche Morgan Grenfell, said: "I think the results will show some are in serious problems . . . The government may be trying to close some down or force some together."

The problems facing the banking sector were also highlighted after a Ministry of Finance official admitted that the adoption of US reporting standards would probably increase the total bad loans in Japan's banking sector by 30 per cent. Total problem loans are calculated at about Y77,000bn ($580bn), while clearly bad loans are Y28,000bn.

INWARD INVESTMENT TOYOTA FACTORY SLIDES BACK INTO LOSS AND PRESSURE MOUNTS ON HONDA AND NISSAN

Strong pound hits Japanese carmakers

By John Griffiths in London

Toyota's carmaking plant at Burnaston in the English Midlands returned to loss last year as the high value of sterling against most other European currencies eroded profit margins of the export-oriented business.

Accounts of Honda's and Nissan's UK manufacturing operations are also expected to reflect the pressures of the near-30 per cent appreciation of sterling against the D-mark and other currencies over the past year.

Honda of the UK Manufacturing makes cars at Swindon in south-west England and Nissan Motor Manufacturing UK has a factory near the north-eastern city of Sunderland. Those two companies and Toyota are particularly vulnerable to the problems raised by sterling's strength because of their pronounced determination to be "good UK corporate citizens" in setting up their ventures.

They pledged themselves to a high level of exports – and are achieving at least 70 per cent in all three cases – and a high level of UK components content.

At least 70 per cent of the components for each manufacturer come from a total of several hundred suppliers based in the UK, which are also suffering from the cost and profit margin pressures being exerted by sterling's strength.

All three companies are intensifying action to find offsetting cost savings and productivity improvements. But Toyota denied reports that it was instituting a "radical" cost-cutting programme. It said it was continuing to seek cost savings and productivity gains of at least 5 per cent a year. "But this is only in line with what we have been saying for some time," the company said.

All three Japanese companies said that exchange rate problems would not affect their plans for increased production even though the increased output is also scheduled to be mainly exported.

Toyota expects its near 50 per cent jump in intended output to return the company to profitability.

Honda plans to lift its UK production from 109,000 last year to 130,000 this year. Nissan plans to hold output at least stable at 271,000 but has plans for an additional model and greatly expanded output over the next few years.

● A survey of manufacturers released today and part-sponsored by the Confederation of British Industry, the employers' lobby, found that export confidence for the year ahead has fallen in every region of the UK, Richard Adams writes. In the past six weeks sterling has fallen 21 pfennigs from its highest point of DM3.10 at the end of March. In the first three months of this year, sterling hovered around DM3, hurting manufacturers. Sterling's rapid fall – coming after 18 months of appreciation – may be too late to help some struggling exporters.

BMW/Rolls-Royce bid, Page 19
Currencies, Page 23

US tour aims to boost funds for N Ireland peace

Finance minister will lead 10-city trip to raise support for $525m economy package

By David Wighton, Political Correspondent

Gordon Brown, the chancellor of the exchequer, is to lead a 10-city tour of the US to seek inward investment to underpin the Northern Ireland peace settlement. Mr Brown announced the autumn initiative in Belfast, the Northern Ireland capital, yesterday.

Chris Gibson, chairman of the Northern Ireland section of the Confederation of British Industry, the employers' lobby, said: "We have to get out there to convince people we are open for business, that we have stopped the sort of arguing and fighting which are inconsequential in the 21st century."

The tour will be part of a UK government effort to boost investment in the region. Small and medium-sized companies are to receive 100 per cent capital allowances for investment in Northern Ireland as part of a £315m ($525m) economic package.

It includes a £150m investment fund financed partly from the Labour government's first privatisation – the proposed sale of Belfast Harbour – which is expected to raise up to £100m. There will also be £65m allocated for employment and training from the proceeds of the windfall tax on privatised utilities.

Mr Brown denied the measures were a bribe aimed at winning acceptance of the peace deal in next week's referendum. But he stressed the connection between peace and prosperity. "For years we have been attempting to build the Northern Ireland economy against a background of violence. From today, 1998, we can begin to build on new foundations," Mr Brown said.

The increased capital allowances will enable small and medium-sized companies to offset against tax the full cost of investment in plant in the first year.

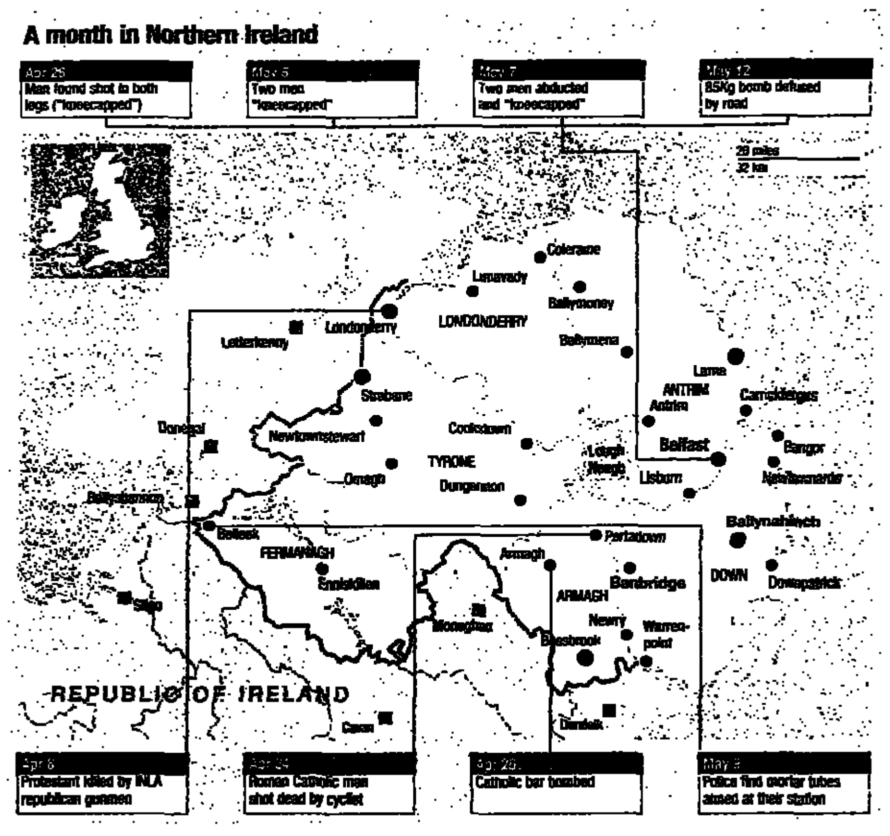
The Inland Revenue estimates that the increased allowances for Northern Ireland will give companies a £100m cashflow boost over the four years.

The £150m investment fund will be financed by £100m of asset sales including a car park in Northern Ireland and £50m of new money. About £100m will go on road projects. There will be investment in the St Angelo airport in the south-west of the region.

The fund will also back a separate £21m innovation and tourism budget. Mr Brown announced that this would put £10m into a new science park "to provide a centre of excellence for businesses spun out from the universities".

The government is also considering plans for a £15m venture capital fund in conjunction with the European Investment Bank. The fund would work on a public-private partnership basis and focus on small businesses and the service sector.

A month in Northern Ireland



Belfast port to be privatised

By George Parker, Political Correspondent

The Port of Belfast, the largest harbour facility in Northern Ireland, was yesterday put up for sale in the first full privatisation since the Labour party won the UK national election in May last year.

Mo Mowlam, chief Northern Ireland minister in the UK government, said the port would be transferred to the private sector in a public offering which is expected to yield up to £100m ($167m).

Ms Mowlam called the new arrangement a public-private partnership because the government was retaining a "golden share" allowing it to block any future takeover.

But it is a startling U-turn by Labour, which vigorously campaigned against the sale of publicly-owned trust ports by the previous Conservative government.

Glenda Jackson, now shipping minister, led the protests against the proposed sale of Dover in England in 1995 - a privatisation which Labour claimed was driven by a Conservative "obsession with the free market."

The Labour government's decision on Belfast indicates that it is prepared to take a pragmatic approach to the remaining trust ports.

A trust port is a self-governing entity administered by a local trust but owned by the state.

However, there appears to be little appetite for similar sales in trust ports elsewhere in the UK.

There are almost 100 left, ranging from large facilities like Dover to small jetties.

Lord Dubs, a Northern Ireland minister, said the transfer of Belfast harbour to the private sector was "in the best long-term interest of the port."

Belfast port has a turnover of £18.7m and handles 16m tonnes of cargo and 2m ferry passengers.

Parts of World Service at risk, says BBC

By John Gapper, Media Editor

The BBC World Service, which is funded by the government and broadcasts in 44 languages, is pressing the Foreign Office for extra funding to start a television service and expand its online output.

It has told Foreign Office officials it may have to stop broadcasting in some languages if it does not gain the £9.5m ($15.86m) it seeks next year, addition to its annual grant-in-aid of £161m.

The extra funding it wants includes £1m for a non-commercial television service in Russia and £1.5m for contributions to the BBC's online service, already one of Europe's biggest websites.

The service has also been trying to raise funding through partnerships with broadcasters around the world.

It could save money by closing smaller services but it might also review some bigger operations, such as its short-wave German language service, broadcast on medium wave in some parts of Germany. World Service executives argue that it cannot simply make economies across the board to save money, an approach that might be preferred by the government because it would be less controversial.

Because the government is working on three-year expenditure plans, this is likely to be a crucial negotiation for the World Service. The service is seeking a four-year commitment, with funding rising by £25m in cash terms by 2002.

Sam Younger, managing director of the World Service, said it wanted to keep investing in its core radio services in English, Arabic, Russian, Mandarin and Spanish, and would have to cut other languages if its funding was capped.

He said it needed to start television services to reach its natural audience in those countries where radio was less popular.

The World Service has already talked to broadcasters in Russia, where many politicians and opinion formers watch television rather than listen to radio. The BBC already produces commercial television channels for international audiences called BBC World and BBC Prime. But Mr Younger said that in some emerging markets there was no possibility of broadcasting on a commercial basis.

ARMS-TO-AFRICA SIERRA LEONE HEAD OF STATE WRITES TO UK PRIME MINISTER

President denies military aid allegations

By Jimmy Burns in London

President Tejan Kabbah of Sierra Leone said yesterday he had received no military backing from the UK government in his return to power.

In a letter released yesterday before Robin Cook, the UK foreign secretary, faced a parliamentary grilling over the affair, Mr Kabbah said he had not asked for or received any military assistance either overtly or covertly.

The letter to Tony Blair, the prime minister, also claimed the role played by Sandline, the UK firm of military consultants, in helping Mr Kabbah return to power had been exaggerated.

The letter was contradicted by Sandline which yesterday released further details of what it alleged was a legitimate military involvement in Sierra Leone which had the backing of UK government.

The company said its main role had been before and during the attack by West African peacekeeping forces (Ecomog) in February which led to the restoration of the Kabbah presidency. It claimed its support for the Ecomog forces had included advisers on military planning, intelligence, logistics and communications.

Further questions about the nature of UK presence in Sierra Leone emerged last night as the government admitted that a senior British officer had fought alongside pro-Kabbah troops last June after being deployed to Sierra Leone in a three-man military advisory team.

The officer, Major Lincoln Jopp, was awarded a military cross for bravery by Queen Elizabeth. He was wounded while helping defend a position occupied by pro-Kabbah troops which were under attack from forces loyal to the junta.

The defence ministry would not comment last night on independent eyewitness accounts made available to the Financial Times claiming that Major Jopp was embroiled in the fighting alongside at least eight white mercenaries.

The ministry insisted the fact that Major Jopp and the chief executive of Sandline, Lieutenant Colonel Tim Spicer, both belonged to the same Scots Guards regiment was "purely coincidental". He added: "There was no collusion between Sandline and Major Jopp."

● Robin Cook, the foreign secretary, yesterday conditionally cleared Foreign Office officials accused of approving the sale of arms to Sierra Leone in possible breach of a United Nations embargo, Andrew Parker writes.

Mr Cook, insisting that the "arms-to-Africa" affair had been blown "out of all proportion", said he had found no evidence that officials in the Foreign Office's Africa section gave any "prior approval" to a breach of the embargo.

Mr Cook told MPs: "In all the papers I have read on this affair, I have found no evidence that officials in the Africa department were involved in any kind of conspiracy with Sandline, or gave prior approval to a breach of the arms embargo... I have more faith in my officials than I have in Sandline."

Mr Cook's emergency House of Commons statement was used to consolidate the government's response to the arms-to-Africa affair after more than a week of damaging confusion until Mr Blair's intervention on Monday.

Ousted transport chief scorns London rail compromise

The government's complicated proposal for semi-privatisationm of the Underground is disputed, **Charles Batchelor** reports

The uneasy compromise struck by the government to bring private capital into London's creaking Underground railway system has been highlighted by the campaign fought by Peter Ford, the sacked chairman of London Transport, the state body which oversees the system.

Ousted managers are normally prevented from discussing their former businesses in public by legal gags or concern about their own careers. But Mr Ford, angered by what he believes to be government "leaks" impugning his reputation, has missed no opportunity to voice his criticisms.

He told the House of Commons transport committee last week that the government's chosen option for the railway was not the one recommended by London Transport.

John Prescott, deputy prime minister and chief transport minister, unveiled plans in March to create up to three concessions to take over the infrastructure of the network, while the running of trains would remain with a revamped London Underground in the public sector. London Underground would pay the infrastructure companies if they met agreed performance targets. They, in return, would invest £7bn ($11.7bn) to upgrade the system over the next 15 years.

London Transport's favoured option was to retain a single integrated organisation in the public sector; its second choice was to privatise the company as a single unit. But Mr Ford says splitting the Underground into private and public chunks would increase the complexity of the system and add between £1bn and £3bn to costs.

Many financiers and rail experts regard this as a messy compromise which has arisen because of the government's election pledge to avoid a full-scale privatisation and pressure from the Treasury to get a costly liability off its books.

Observers see four main problems:

● The government still faces a potential liability if ticket revenues fall and London Transport does not have sufficient funds to pay the infrastructure companies. Under the present system, if a cash shortage occurs, London Underground delays renewing track or repairing tunnels. In a partly privatised system, the operating budget – which has a more immediate effect on passengers – would bear the brunt of a cash shortfall.

● The need for long-term financial commitments. London Underground believes the infrastructure concessions will need to last for between 15 and 25 years to justify the long-term investments required. But Railtrack, which owns most of the infrastructure on the national rail network and is keen to become involved in the underground, thinks 30-35 years may be needed.

This would imply commitments of public funding for periods much longer even than the 15-year maximum terms agreed for privatised train franchises in the national network.

● The need to cope with unexpected infrastructure problems. Who, for example, would be responsible for a meltdown of cabling which shut part of the network?

● The difficulty of setting performance targets for the infrastructure companies. Railtrack measures its performance in terms of minutes of train delays caused by infrastructure. But targets for the smoothness of ride or quality of stations are more difficult.

None of these problems is insuperable but the government has set a deadline to complete the sale of the infrastructure by April 2000. Its inability to decide how many companies it wants – the Treasury wants three, the transport department one – is not encouraging.

Squeezing the Underground: the last five years' figures

Source: London Transport

NEWS DIGEST

NUCLEAR REPROCESSING

Scottish complex ordered to shut after safety alert

The Dounreay nuclear complex in Scotland has been ordered to shut down most of its operations indefinitely until it can convince the UK's nuclear watchdog that the plant is safe after a power failure last week. The order from the Nuclear Installations Inspectorate affects the plant's processing activities and follows a prohibition notice served last year on its operations for reprocessing spent nuclear fuel. It is the latest in a string of embarrassing problems to hit the ageing plant since it took in for safekeeping last month 5kg of highly enriched uranium from the former Soviet republic of Georgia. Before Thursday's power cut, a public row broke out over inadequate policing of the plant against potential terrorist attack.

Only 0.8kg of the Georgian material was to be reprocessed into new nuclear fuel, producing a small amount of plutonium as a by-product – the practice banned last year. But processing of the remaining 4.2kg into medical isotopes for helping to treat cancer was to have started soon. Now Dounreay is not even allowed to engage in that sort of work until it receives a clean bill of health from the inspectorate. Roseanna Cunningham MP, chief environment representative of the Scottish National party, said: "What we need is a full inquiry into all aspects of management and operation at Dounreay and not just another sticking plaster where major surgery is needed." **James Buxton, Edinburgh, and Leyla Boulton, London**

HORSE RACING

Owner chosen to head board

Peter Savill, the millionaire racehorse owner, has been chosen as the new chairman of the British Horseracing Board, the sport's governing body. His appointment comes four months after Lord Wakeham resigned from the post during a dispute over the industry's financial position. The unanimous election of Mr Savill, by the BHB's nine-member board, surprised those in the sport who expected him to face opposition from the four board members from the Jockey Club, the organisation which oversees the rules and regulations of racing. Mr Savill was seen as the preferred choice of the industry – the owners, trainers, breeders and racecourse operators – while Sir William Purves, the outgoing chairman of the HSBC banking group, was seen as the choice of the Jockey Club. Sir William never confirmed his interest in the chairmanship and Mr Savill won the support of the entire board. **Patrick Harverson, London**

'SILICON GLEN'

Viasystems to shed 210 jobs

Viasystems, a US company which claims to be the world's biggest manufacturer of printed circuit boards, is shedding 210 workers at its two factories in southern Scotland. It employs 1,144 people in a business which it acquired last April from Forward Group. Viasystems, a private company based in St Louis, Missouri, also owns Interconnection Systems in north-east England and this year acquired three more PCB makers – in Italy, the Netherlands, and Sweden. The job losses in Scotland are the result of a reorganisation of production across the group with subsidiaries concentrating on different types of product. Viasystems is proceeding with a £10m ($16.7m) investment in its production line at Galashiels, southern Scotland. **James Buxton, Edinburgh**

TOURISM

N American visitors up 13%

The number of visitors to the UK from North America increased by 13 per cent to 4.6m last year, the British Tourist Authority reported yesterday. It expects an 11 per cent increase in visitors from the region this year and a rise of 8 per cent next year but warned that the market could be threatened by events such as another Gulf War or a collapse of the Northern Ireland peace process. Recovery from the financial downturn in Asia would happen sooner than expected, predicted the BTA. It expected the loss of visitors to Britain to come from group travel and not business or the youth market. The strength of the pound, the economic downturn in Asia and increased global competition for tourists had made last year a tough one for tourism, said David Quarmby, authority chairman. "However, we have held our own because the UK is viewed as a fashionable, must-see destination." **Scheherazade Daneshkhu, London**

VEHICLE INDUSTRY

UK new car registrations: April 1998

	April 1998 Volume	April 1998 Change %	April 1998 Share %	April '97 Share %	Jan-April 1998 Volume	Jan-April 1998 Change %	Jan-April 1998 Share %	Jan-April '97 Share %
Total Market	171,690	-6.1	100	100	794,252	8.3	100	100
UK Produced	52,593	-19.6	30.6	35.8	258,928	1.2	32.6	34.9
Imports	119,097	1.5	69.4	64.2	535,324	12.2	67.4	65.1
Japanese makes	26,058	2.8	15.2	13.9	114,517	14.0	14.4	13.7
Ford group	28,867	-17.4	16.8	19.1	147,914	9.1	18.6	18.5
Ford	27,823	-18.3	16.2	18.6	143,096	8.5	18.0	18.0
Jaguar	1,044	17.7	0.6	0.5	4,818	30.9	0.6	0.5
General Motors(1)	22,358	-17.3	13.0	14.8	108,326	-0.6	13.6	14.9
Vauxhall	20,844	-19.2	12.1	14.1	101,170	-1.3	12.7	14.0
Saab	1,514	23.0	0.9	0.7	7,156	10.3	0.9	0.9
BMW group	19,849	-15.2	11.6	12.8	98,826	3.7	12.4	13.0
BMW	4,778	-10.9	2.8	2.9	25,615	14.7	3.2	3.0
Rover(2)	15,071	-16.5	8.8	9.9	73,211	0.3	9.2	10.0
Peugeot group	20,218	8.8	11.8	10.2	93,004	7.0	11.7	11.8
Peugeot	14,085	1.3	8.2	7.6	64,142	14.8	8.1	7.6
Citroen	6,133	31.5	3.6	2.6	28,862	-7.0	3.6	4.2
Volkswagen group	15,233	-8.3	8.9	9.1	68,129	7.4	8.6	8.7
Volkswagen	9,144	-18.2	5.3	6.1	40,178	2.7	5.1	5.3
Audi	3,130	1.1	1.8	1.7	15,578	12.0	2.0	1.9
SEAT	1,776	65.5	1.0	0.8	7,225	27.1	0.9	0.8
Skoda(3)	1,183	-1.3	0.7	0.7	5,148	9.0	0.6	0.6
Renault	15,930	12.2	9.3	7.8	67,783	23.6	8.5	7.5
Nissan	7,192	-4.7	4.2	4.1	32,893	7.4	4.1	4.2
Toyota	7,329	9.0	4.3	3.7	28,103	9.9	3.5	3.5
Fiat group	9,246	13.1	5.4	4.5	33,574	8.3	4.2	4.2
Fiat	8,540	11.2	5.0	4.2	31,130	6.6	3.9	4.0
Alfa Romeo	706	43.8	0.4	0.3	2,444	36.0	0.3	0.2
Volvo	2,402	-38.9	1.4	2.2	12,275	-15.8	1.5	2.0
Mercedes Benz	3,948	10.9	2.3	1.9	17,975	23.2	2.3	2.0
Honda	4,883	11.8	2.8	2.4	21,009	20.2	2.6	2.4
Mazda	2,210	-14.7	1.3	1.4	10,111	-1.8	1.3	1.4
Korean makes	4,761	15.9	2.8	2.2	19,048	20.1	2.4	2.2

1. GM holds 50% of Saab Automobile and has management control
2. Includes Range Rover Discovery
3. VW holds 70% of Skoda and has management control

Source: Society of Motor Manufacturers and Traders

GM arm launches 'green' car

A range of "green" vehicles running on liquefied petroleum gas as well as conventional petrol has been launched by the Vauxhall offshoot of General Motors at a motor show for managers of company car fleets. The company claims the dual-fuel vehicles are the first to be offered in the UK as a standard part of a leading manufacturers' product range. The Vectra, Omega and Combo models are aimed primarily at the business sector and companies seeking to use environmentally friendly vehicles. The cars and light commercial vehicles can be made to operate on LPG or petrol at the flick of a switch, allowing drivers to avoid a problem facing LPG – the existence of only 120 LPG petrol stations in the UK. Cars running on LPG have a low level of exhaust pollutants, and the fuel costs only about £0.39 (50c) a litre compared with about £0.67 for petrol in the UK. **John Griffiths, London**

TELEVISION THE EUROVISION SONG CONTEST

Kitsch on a roller coaster

From Aeschylus to Zola, Europe's contribution to the culture of the world has been outstanding: Bach and Shakespeare, da Vinci and Mozart, Puccini and Rembrandt, the list could go on for the rest of this page. Television is the world's most popular and technically advanced mass medium. Put European culture and television together and what do you get? *The Eurovision Song Contest*. It is a good job we can laugh because otherwise we would surely have to weep.

True, this year's contest, the 43rd, mounted by the British as a forfeit for winning last year, was probably the most technically accomplished ever. The vast National Exhibition Centre in Birmingham was tricked out in just the right sort of hideous kitsch for the occasion: activities began and – astonishingly – ended on time; presenters Terry Wogan and Ulrika Jonsson were professionally polished: and the little videos introducing each country's entry, leading via a cunningly contrived picture of the relevant flag into the following song, set a standard which will be hard to sustain in future years.

The notorious 60-minute climax, as points from the competing countries are aggregated, went smoothly, and The Lovely Ulrika did her stuff beautifully, repeating "Croatia quatre points" and translating this flawlessly into English, the sort of linguistic accomplinment which leaves British iewers breathless with admration. The only snag was t'e content. When all 25 sorgs had been sung, but befcre the voting started, I wrot in my notebook the three ntries which seemed to be te only conceivable contenders for the prize (and, in cse anyone should be so unharitable as to think I an being wise after the event, mmediately read out the lit to the other four people in the room).

Malta, Israel and the UK were my predictions fr first, second and third, but an hour and a half late I was proved wrong, of couse. The order was actually Isael, the UK and Malta. If it ias easy as that for a non specalist to spot the top three, what is actually happening at this event? What is it a about? Does the *Eurovisin Song Contest* not really bring us the best songs in Erope?

Obviously not. Is t, nevertheless, a truly gamorous occasion? Equally obviously not; it is one of the most naff events imaginable We had our own contest fr "Daftest Outfit" which it semed, for a while, would be won by the very first ontestant, Danijela of Croatia. She came on in a full nun's habit in black silk, complete with wimple, which she threw off to reveal a white figure-hugging dress with striking décolletage. However, she was overtaken by a man who had one lapel, but only one, covered in what appeared to be miniature horse brasses, and the winner was Germany's Guildo Horn who hurtled into view wearing a turquoise lurex cloak and matching flares, topped off by the world's silliest haircut.

Because the Eurovision Song Contest is the opposite of excellent and elite it is well on theway to achieving the status of Unbuchable Event

Is it, then, one of those occasions like Oscar night which fascinate even though we can see straight through to the artificiality? That is closer, but the attraction of the Oscars is that so many film stars with household names are present and longing passionately to win. On Oscar night there is real joy and real *schadenfreude* in large measure, as the famous either become even more famous or get their come-uppance. That is scarcely true of the *Eurovision Song Contest*.

It is hard to avoid the suspicion that it is there solely because it is technically possible to link up a couple of dozen countries and, in the mid-1950s when it began, European broadcasters were keen to show off their border-crossing abilities. It continues today because nobody has the faintest idea how to stop it. Having won in 1998, how could Israel possibly back out of staging the event in 1999, even if the budget does bankrupt the Israeli broadcasting service? It is like family Christmases: even when all the participants loathe it, nobody has the guts to be the first to say no.

In Britain for years the smart attitude towards the contest among the chatterati has been fond superciliousness. Terry Wogan alone is responsible for this. Having agreed to serve as presenter and, being no fool, quickly realised how appalling it was, his decision, it seems, was to continue with the profitable and high profile task while sending it up rotten. So successful has he been that many Britons not only claim to watch solely for Wogan (as they used to, even though they were fibbing) but now genuinely do.

He can be very funny and, in a world of deadly political correctness, Wogan alone, on this night at any rate, seems to have a licence from the BBC to say pretty much what he likes, however xenophobic. Introducing the Hungarian number, "A Holnap Mar Nem Lesz Szomoru", he warned us that the singer, Charlie, "is from the razor blade gargling school of singers". He also alerted us to "Watch out for the first appearance of the great German crowd pleaser this year, the mouth organ", and of the points-totalling process remarked "It's wonderful isn't it – refreshes your faith in chaos theory".

And the winner is . . . a transsexual bedecked with macaw feathers: Israeli singer Dana International performing her winning song

Because the *Eurovision Song Contest* is the opposite of excellent and elite it was already well on the way to achieving the status of Untouchable Event. The irony is that, far from delaying that process, Wogan's barbs have accelerated it. Like soccer and soap opera, the song contest is watched by huge numbers of people and, at the end of this millennium, that alone, in television terms, is enough to put it into a special category of protected programmes which should not be seriously criticised. In the days of Cool Britannia it is very uncool to point out that the *Eurovision Song Contest* is a celebration of vulgar mediocrity, organised by the countries which produced Beethoven, Monteverdi, Purcell, Wagner and scores of other truly great song writers.

There are still considerable numbers of good programmes on British television. *Our Mutual Friend* was excellent, and it looks as though the forthcoming Promenade Concert season will be as good as ever. But it is sad to see the way in which reaction to mass popularity has shifted in one generation from deep suspicion to religious awe. In 1955 J.B. Priestley, a man of the people if ever there was one, wrote: "Admass is my name for the whole system of an increasing productivity, plus inflation, plus a rising standard of material living, plus high-pressure advertising and salesmanship, plus mass communications, plus cultural democracy and the creation of the mass mind, the mass man". I suspect Orwell would have endorsed much of that. Today, in a country once again governed by the Labour Party (well, a party calling itself New Labour, anyway) the admass finally appears to have become the ideal. And among the forces which have brought that about, the most significant is television: a medium which sees the *Eurovision Song Contest* as good because it gets huge ratings.

Christopher Dunkley

Poetry turned into pantomime

OPERA

Andrew Clark

Eugene Onegin
Opera North, Leeds

In the opening scene of Opera North's new production of *Eugene Onegin*, a small rectangular panel hangs self-consciously from the flies, as if the surtitle board has been incorporated into the stage design. But no – the performance is sung in English, and for much of the first act the panel simply reflects the cloud-free skies of Tatyana's romantic dreams, just as it later echoes in miniature the chilly atmosphere of the duel. In the final scene it returns, up-ended and enlarged, as a mirror in the Gremin palace. The surface transforms into a heavenly sky when Tatyana recalls her youthful passion for Onegin.

Dalia Ibelhauptaite, the stage director, evidently believes this is a useful way of representing the opera's emotional climate. It is certainly easier than trying to do so the traditional way – ie by drawing performances of emotional truthfulness from the cast. That is why Saturday's performance at the Leeds Grand Theatre was such a depressing spectacle. In an opera as poetically sensitive to period and feeling as this, where subtleties of mood and gesture are everything, Ibelhauptaite's staging had all the clout of socialist-realist pantomime. When it was not merely irritating, it was patronising, infantile and occasionally quite comical.

But surely there must have been some redeeming feature? Well, not in the opening act, where the Larin estate workers cooked and danced like a Soviet peasants' collective, and Tatyana's letter-scribbling was as fake as the wooden columns masquerading as trees. Even the prelude, ponderously conducted by Steven Sloane, failed to generate the necessary frisson of anticipation. Indeed this was a far-from-auspicious debut by the company's music director-elect, with too many brash climaxes substituting for dramatic shapeliness.

Given the postmodern simplicity of Giles Cadle's sets – nothing more than a cut-out door for the letter scene, a headboard of deer and boar for the Act 2 party – it was a mystery why each scene-change took so long. Sue Wilmington's handsome but overlit costumes offered respite from Ibelhauptaite's self-congratulatory ensembles, and the staging finally uncovered some half-shades in the understated elegance of the Act 3 ball. Even here, Gremin's aria came across apologetically, and the orchestra was impossibly loud.

To say this was by far the worst *Onegin* I have witnessed would be unfair to a cast who appeared to have received no guidance about how to move or relate to one another. On this evidence, it was hard to believe that Alwyn Mellor had already sung Tatyana elsewhere. Her well-built voice has potential, but she sang the letter scene with the conviction of a schoolgirl reciting her catechism. Like the staging itself, she had no candour – which may explain why she carried off the society hostess of the St Petersburg ball better than the impressionable dreamer of the early scenes or the unsettled spouse of the finale.

Farrago of a production: Peter Savidge and Alwyn Mellor

Alastair Muir

In Peter Savidge's Onegin, boorishness took precedence over vocal nuance; the *volte-face* in the final act just didn't ring true. Paul Nilon was the unromantic Lensky, Norman Bailey a grandfatherly Gremin. Frances McCafferty gave Filipyevna a mighty presence – what a valuable asset this mezzo has become – and Emer McGilloway turned Olga into the belle of the ball. McGilloway is a real find: she uses her rich and creamy contralto intelligently, she has raven-haired looks, she moves easily. Take away the permanent smile, and we may have a major talent. As for Opera North, serious questions must be asked about why Ibelhauptaite was re-engaged after her badly received *Butterfly*, and how she was able to get away with this farrago.

MUSIC BARENBOIM IN LONDON

Beethoven all the way

As we never see Daniel Barenboim in front of British orchestras these days, it is good that he is visiting more often with his orchestras from overseas. At the BBC Proms this summer he will be appearing with the Chicago Symphony Orchestra and for the best part of two weeks he is currently in residence on the South Bank with his other orchestra, the Staatskapelle Berlin.

It is only now that Germany is united it is becoming obvious what an array of fine orchestras the country has. If anything, those in the east – Dresden, Leipzig and east Berlin – have kept the flame of the German musical tradition burning even more truly than those in the west. At the Royal Festival Hall the Staatskapelle Berlin has been sounding exactly the inheritor of Teutonic musical history – mellow and mature, if lacking the aristocratic high-mindedness that sets the Dresden Staatskapelle apart.

There is just one focus to the tour: that is Beethoven, all the symphonies and the piano concertos, both conducted and played by Barenboim. It is a musical double that he is used to: his Mozart piano concertos with the English Chamber Orchestra back in the 1970s started the trend. The balance between piano and orchestra was nicely judged, the solo part neither projected too harshly, nor muffled.

Back in the days when Barenboim was an everyday face in London, I remember a performance of the Fourth Piano Concerto in which he was the conductor and Artur Rubinstein the pianist. They seemed to have rather different ideas about the music, Rubinstein's effortless sparkle not finding a soul-mate in the conductor's self-conscious probing of the music, whereas here the performance was all of a piece.

It is easy to read into these performances a compromise between the stoic Klemperer and the romantic, far-sighted Furtwängler

Barenboim's Beethoven is very much of the old school. It is grandiloquent, sometimes romantically lyrical, more often combative with little sparing of the orchestra's weight and muscle. As we know who Barenboim's guiding lights were among the conductors of the previous generation, it is easy to read into these performances a compromise between the stoic Klemperer and the romantic, far-sighted Furtwängler. The bigger the symphony, the better this is likely to work.

In Wednesday's concert the First Symphony felt a long way from Haydnesque jocularity, even played with reduced strings, whereas by the end the Fifth had packed a determined punch. Barenboim likes to work his way into the music and so outer movements – the same happened with the "Eroica" on Tuesday – take a while to get going on a slow-burning fuse.

If that was all that was on offer, the verdict might be one of big expectations disappointed. But there were also inspiring passages where the performances lifted on to another plane. As Barenboim entered the heart of the Fourth Concerto's opening Allegro, or the peroration of the "Eroica"'s funeral march, the music seemed to hold its breath and begin to search beyond the notes for a deeper spiritual meaning. Was that Bruckner one glimpsed watching down from above?

The cycle continues in London till May 17 and Paris will also see part of it when Barenboim and his orchestra break off to cross the Channel. On balance, it looks a musical journey worth seeing through to the end.

Richard Fairman

Opening concert on May 5 sponsored by Deminex.

INTERNATIONAL

Arts Guide

BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Emmanuel Krivine in works by Beethoven and Tchaikovsky. With violin soloist Gil Shaham; May 17, 18

BOLOGNA

OPERA
Teatro Comunale
Tel: 39-51-529 999
www.nettuno.it/bo/teatrocomunale
Don Pasquale: by Donizetti. La Scala production conducted by Maurizio Benini/Roberto Polastri in a staging by Stefano Vizioli. Cast includes Ruggero Raimondi; May 14, 15

BOSTON

EXHIBITION
Museum of Fine Arts, Boston
Tel: 1-617-267 9300
A Grand Design: The Art of the Victoria and Albert Museum. North American tour of selected objects from the V&A's collection. Consists of 250 works of art ranging from Leonardo da Vinci's notebooks to shoes by Vivienne Westwood; ends on Sunday

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
● Il Ritorno d'Ullisse: by Monteverdi. New production conducted by Philippe Pierlot in a staging by William Kentridge. With the Handspring Puppet Company, at the Lunatheater; May 13, 15, 16, 17
● L'Orfeo: by Monteverdi. New production conducted by René Jacobs and directed and choreographed by Trisha Brown, with designs by Roland Aeschlimann; May 13, 14, 15, 16, 17

CANBERRA

EXHIBITION
National Gallery of Australia
Tel: 61-2-6240 6502
www.nga.gov.au
New Worlds From Old: 19th Century Australian and American Landscapes. 100 paintings by artists including Augustus Earle, Conrad Martens, Thomas Cole and Winslow Homer; ends on Sunday

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Franz Welser-Möst in works by Brahms and Shostakovich. With piano soloist André Watts; May 14, 15, 16

CLEVELAND

EXHIBITION
Cleveland Museum of Art
Tel: 1-216-421 7340
www.clemusart.com
Gifts of the Nile: Ancient Egyptian Faience. Display of ceramics, known as faience, a mixture worked by the Egyptians and regarded by them as magical. Brings together over 200 works, including statuettes of kings, gods, and animals, and inlaid boxes ranging over 5000 years. Includes works borrowed from public and private collections in the US and Europe; to Jul 5

FRANKFURT

CONCERT
Frankfurt Oper
Tel: 49-69-21202
Budapest Festival Orchestra: conducted by Ivan Fischer in works by Mahler and Bruckner. With mezzosoprano Doris Soffel; May 15

LAUSANNE

CONCERT
Théâtre de Beaulieu
Tel: 41-21-643 2211
Orchestre de la Suisse Romande: conducted by Ulf Schirmer in works by Carl Nielsen, Isang Yun and Stravinsky; May 14

LISBON

CONCERTS
100 Days Festival, Expo '98
Madrid Symphony Orchestra: El Amor Brujo by Manuel de Falla; Main Auditorium, Centro Cultural de Belém; May 16, 17

DANCE
100 Days Festival, Expo '98
Pina Bausch: specially commissioned new work; Main Auditorium, Centro Cultural de Belém; May 13

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
Barenboim Beethoven Cycle: series of six concerts, with Barenboim conducting the nine Symphonies and directing the five Piano Concertos from the keyboard. With the Staatskapelle Berlin and London Symphony Chorus; May 15, 16, 17

EXHIBITION
Tate Gallery
Tel: 44-171-887 8000
Bonnard (1867-1947): focusing on works produced between the 1890s and the 1940s. Includes landscapes, still lifes, a series of nudes depicting Marthe, Bonnard's lifelong companion, and several self-portraits; ends on Sunday

LOS ANGELES

OPERA
L.A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
Il Trovatore: by Verdi. Conducted by Gabriele Ferro in a staging by Stephen Lawless. Cast includes Vladimir Bogachov; May 13, 16

MADRID

EXHIBITION
Fundació "la Caixa"
Tel: 34-1-435 4833
From Whistler to Sickert: joint retrospective of the two painters which aims to introduce their work to the Spanish public by contrasting their differences. The exhibition will demonstrate the influence of Velázquez on Whistler as well as that of Whistler on Sickert; ends on Sunday

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Der Freischütz: by Weber. Conducted by Donald Runnicles in a staging by Pier'Alli, with a cast including Kim Begley and Nancy Gustafson; May 14, 16

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Bavarian Radio Symphony Orchestra: conducted by Dmitrij Kitajenko in works by Prokofiev and Tchaikovsky; May 14, 15
● Westdeutsche Sinfonia Leverkusen: conducted by Dirk Joeres in works by Haydn, Mozart and Beethoven. With horn soloist Michael Thompson and violinist Jural Cizmarovic; May 13

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
The Midsummer Marriage: by Michael Tippett. Munich premiere. Mark Elder conducts a production staged by Richard Jones, with a cast including Alison Hagley and Philip Langridge; May 15, 18

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
New York Philharmonic: conducted by James Conlon in works by Zelinsky, Rachmaninov and Liszt. With piano soloist Garrick Ohlsson; Avery Fisher Hall; May 14, 15

PARIS

EXHIBITION
Musée d'Orsay
Tel: 33-1-4049 4814
www.Musee-Orsay.fr
Manet, Monet, and the Gare Saint-Lazare: places Manet's famous painting in a context provided by works by other artists and a group of related drawings, prints and photographs; ends on Sunday

PHILADELPHIA

EXHIBITIONS
Philadelphia Museum of Art
Tel: 1-215-763 8100
www.philamuseum.org
Self-Taught Artists of the 20th Century: An American Anthology. 300 works by more than 30 artists, all of them without formal training. Includes paintings, sculpture and installations by artists ranging from Grandma Moses (1860-1961) to Ken Grimes (b.1947); ends on Sunday

ST PETERSBURG

EXHIBITION
State Hermitage Museum
French Master Drawings from the Pierpoint Morgan Library: 120 drawings, sketchbooks and albums; to Jul 25

TOKYO

CONCERT
Tokyo Opera City Concert Hall
London Symphony Orchestra: conducted by Sir Colin Davis in works by Beethoven; May 17

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

LIONEL BARBER
EUROPEAN VIEWPOINT

The second coming

Jacques Delors could return to debate the constitutional future of Europe as it prepares to expand eastwards. But is he needed?

Here we go again. A Wise Man's Group on the future of Europe, this time headed by the philosopher king himself: Jacques Delors.

The proposal is President Jacques Chirac's, the same Mr Chirac who declared the other day: "Europe faces new challenges, and new challenges require new faces." Mr Delors has many qualities but he is hardly a fresh face. Nor does he have much in common with Mr Chirac.

Mr Chirac unveiled his *Wise Man's initiative* immediately after the Brussels summit that selected the founder members of economic and monetary union but ended in a bruising compromise over the presidency of the European Central Bank.

The suspicion is that the French president wants to divert attention from the rupture between Paris and Bonn over *the ECB. Mr* Delors, an early supporter of German unification, will always be welcome on the other side of the Rhine. But Mr Kohl must still be wondering why a weakened Mr Chirac is so keen to reopen Europe's constitutional debate.

After all, the 1997 treaty of Amsterdam – the European Union's most recent constitutional revision – has barely been signed. It still faces ratification hurdles, notably in a referendum in Denmark on May 28. Mr Delors' second coming looks premature, even risky.

Six years ago Mr Delors, then president of the European Commission, sanctioned a review of the EU's institutions ahead of enlargement to Austria, *Finland and Sweden. The* 1992 Maastricht treaty had yet to be ratified, but Mr Delors felt the treaty lacked ambition. He wanted a Political Europe to balance the planned Monetary Europe.

The Commission review leaked. *Proposals to* strengthen the powers of the Commission president and to dilute the representation of smaller countries were reduced to a memorable, if misleading, UK newspaper headline: "Delors plan to rule Europe." Voters took fright and the Maastricht referendum in Denmark was narrowly lost.

Thanks to the ingenuity of *Brussels lawyers, EU leaders* pasted together an amended version of Maastricht that passed muster in a second Danish referendum in May 1993. But the Union's planned eastern enlargement early next century means the institutional question will not go away.

A year ago, in the Dutch town of Noordwijk, Mr Chirac tried to win German *support for reforms. He* wanted to cut the 20-strong Commission to 10 members, removing the automatic right of each country to one representative. He also pressed for a reweighting of the votes to reduce the disproportionate weight of smaller countries in the decision-making Council of Ministers.

Jacques Delors: in demand

The Germans were tempted, but Mr Kohl put off the moment of reckoning. He was worried that an argument between small and large countries risked disrupting the EU's crowded political calendar, which required decisions on Emu, enlargement and the future size of the EU budget by the *end of the decade.*

The Amsterdam treaty ended up with a protocol that provides for a review of the size of the Commission, the weighting of votes and the extension of majority voting as soon as the Union moves beyond 15 members. Now that enlargement negotiations are under way with five central European candidates plus Cyprus, the *question of when and how to* tackle institutional reform is back on the agenda.

Mr Chirac's instinct is to tackle the issue sooner rather than later. French officials claim that Mr Chirac backed a French candidate for the ECB so vigorously because he was stung by charges of "capitulation" to Germany on the balance of power in European institutions. They warn that France will block enlargement unless it obtains satisfaction.

The Germans are torn. Either they gang up with the French at the expense of smaller countries, or they push parity to its logical conclusion and demand better representation for 80m Germans in Europe's institutions.

Equally, Germany has become more attached to the national veto, fearing that the extension of majority voting in justice and home affairs could weaken *national defences against* illegal immigration. Yet the Germans know that more majority voting is the price smaller member states such as Belgium and the Netherlands will extract for a reduction in their voting weights and a safe passage for eastern enlargement.

The British government is watching developments with a mixture of fascination and trepidation. Tony Blair thinks the EU's institutions and decision-making procedures are creaking with 15 members. However, the idea of Mr Delors, the *bête noire* of Brussels, heading such a debate makes Downing Street distinctly queasy.

Mr Blair should be less timid. Britain has little to lose and everything to gain by a bolder stance on institutional reform. The Amsterdam summit came close to a deal that would have strengthened the voting power of the big *countries in return for* giving up one of their two EU commissioners. A moderate extension of majority voting is manageable if the Labour government – unlike its Conservative predecessor – does not treat national sovereignty like virginity.

Mr Blair could canvass support for a short, sharp constitutional conference *early next year under the* German presidency. The aim would be a deal before the appointment of the next Commission president at the June summit in Cologne.

The president-designate – take your pick from Felipe Gonzalez, Giuliano Amato, Chris Patten, Peter Sutherland or half a dozen others – would then be able to pick a sensibly sized team in the second half of the year ready to take office in January 2000.

The risk of a delay is that countries will hold enlargement hostage to institutional reform. Optimists in Brussels say the resulting crisis will force the compromises necessary to let the Poles, Czechs and Hungarians into the Union around the new informal *date of 2004. That, however,* is a Chirac-sized gamble Mr Blair would be wise to shun.

lionel.barber@ftbe.com

LETTERS TO THE EDITOR

Economic performance, not interest rates, should drive currency levels

From Mr Hans Edwards.

Sir, We hear once again, in your article "Volkswagen stands proudly beside polished fleet" (May 9-10), about VW's bid for Rolls Royce Motors, of the battering British industry is taking because of the strong pound. In the 1960s we exchanged one pound for DM11.2; lately it has been about DM3 to the pound. Did we hear German industry complaining about the strong D-Mark over the past 30 years? If Britain had learned to sell goods on quality rather than price, perhaps it would not now be offering Rolls Royce to the German car industry.

Hans Edwards,
Brand 2,
3053 Laaben, Austria

From Mr Rowan O'Neill.

Sir, Philip Coggan, in his article "Not quite so sterling after all" (May 9-10), observes in relation to the over-valued pound that "the Japanese and the Germans have done pretty well out of their strong currencies over the last 25 years". This point has recently appeared so often in otherwise rational articles that I suspect energetic Treasury spinning somewhere in the background.

There is a world of difference between the consequences of a currency that is strong because of a superior trading performance and despite low interest rates, and one that is strong because of high interest rates and despite a moderate trading performance. The Germans did not "do well out of their strong currency"; rather they had a strong currency (with its *attendant benefits*) because, first, they did well. During most of the period of D-Mark appreciation, German interest rates were low, and the fiscal balance strong. In consequence the appreciation could be managed, in part as an aspect of inflation control, in such a way that the appreciation was always behind the curve of an improving productivity. At each revaluation, German exporters chuntered a bit, but could then get on with creating the necessity for the next one.

The near 40 per cent appreciation of sterling against the D-Mark in the period up to mid-April was not in the same category. It is true that the UK may be better able to emulate the German performance of the 1950s-1980s now than in previous decades, but the essential prerequisite is that the inflation target and fiscal stance be tighter, interest rates lower, and the level of *the currency* be driven by economic performance alone and not by interest rates.

Rowan O'Neill,
Jerome House,
Front Street, Churchill,
N Somerset BS25 5NG, UK

Market gap is for early morning flyer

From Mr Henny Essenberg.

Sir, In casting doubt on my remarks quoted in your "The Business of Travel Review" (May 7), Roland Fernsby (Letters, May 9/10) overlooks the distinction I was making.

I questioned which airlines were *catering* for the needs of the smaller businessman or woman who needed to get to the other end of the country *first thing in the morning* but who did not have the travel budget of a blue-chip company.

KLM UK believes that this middle market is being largely ignored by the no-frills carriers and the premium-priced business airlines and is a sector that we are therefore targeting.

However, Mr Fernsby uses a midday departure as his example. He may be interested to know that under KLM UK's newly introduced fares structure, he could currently purchase a one-way ticket from London Stansted to Edinburgh for £39. KLM UK also allows the flexibility of six departures every weekday.

Henny Essenberg,
chief executive,
KLM UK,
Stansted House,
Stansted Airport,
Stansted, Essex, UK

Microsoft should stick to what it does best

From Mr Simon Dye.

Sir, Regarding your leader "Microsoft ain't broke" (May 8), Microsoft is not "simply being much better". The company's Windows 3.X series operating system brought us 16-bit technology, Windows 95 brings us 32-bit technology. Windows 98 promises us ... a dodgy browser – even though games players have been able to use 64-bit technology for several years.

We are all held to ransom by this monopolist which should be made to concentrate on that which it does "best" – operating systems, and leave the internet and the rest to others.

Simon Dye,
78 All Saints Road,
Cheltenham,
Glos GL52 2HA, UK

Women shown to have made positive impact in business

From Ms Virginia O'Brien.

Sir, After reading the review ("And the bad news is ...", May 1) of my book *Success on Our Own Terms: Tales of Extraordinary, Ordinary Business Women*, I feel compelled to clarify some points.

The stories of the 45 women in Fortune 500 companies demonstrate the progress they have made. A national survey I developed, to which almost 700 female managers responded, provides additional data: 92 per cent were satisfied or more than satisfied with their career choices; 78 per cent satisfied or more than satisfied with the management level they had attained; and 72 per cent felt the same about the balance in their lives.

Contrary to ignoring the glass ceiling, I referenced the Glass Ceiling Commission report, and provided guidelines from it on key factors needed for successful women's initiatives. I also purposely chose progressive companies acknowledged by the commision in order to model progammes and best practices that have helped women advnce.

Rather than recommending complacency, the book defines ways of navigating corporate corridors, highlights women's brave moves, demonstrates new working structures pioneered by women seeking balance, and focuses on ways in which individual women have made systemic changes in their organisations.

Virginia O'Brien,
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PERSONAL VIEW WILLIAM KENNARD

Three steps to heaven

Privatisation, competition and regulation are fundamental if the world is to build an efficient information infrastructure

In 1851 Nathanial Hawthorne, writing in a world where electricity was in its infancy, said: "By means of electricity the world of matter has become a great nerve, vibrating thousands of miles in a breathless point of time ... The round globe is a vast ... brain, instinct with intelligence."

Al Gore, the US vice president, quoted these words four years ago at the first World Telecommunication Development Conference in Buenos Aires. He called on the nations of the world to join in building that great electronic "nerve": a global information infrastructure.

The theme was picked up in March in the second World Telecommunication Development Conference in Malta. So how are we doing so far?

There is no question the digital information age we are entering is changing the way we communicate and the way we live our lives. You notice it as soon as you walk into an elementary school and see fourth graders *logging on to the internet* for a science project. You see it in the workforce where people sit at home with a laptop in New York and send documents back and forth to colleagues in Hong Kong. The digital revolution has become an engine of job creation and the lifeline of the global economy.

However, this staggering accomplishment does bring some challenges with it. Building a global information infrastructure is a highly capital-intensive endeavour. The question is: what is the quickest and fairest way to finance it?

Traditional sources of revenue, such as settlements payments, are drying up. The settlements system, which requires carriers to pay inflated international termination charges to carriers on the receiving end of a call, has served as an important source of revenue for building infrastructure. But internet telephony and other *alternative calling methods* such as least-cost routing (in which calls are routed through countries with lower rates) and call-back (which enables overseas callers to access cheaper US rates) are eroding the settlements system.

Kennard: privatisation is a keyword

So what should be put in its place? Three elements seem to be essential.

First, privatisation. For some governments this will be enormously difficult. But building a firm foundation for telecommunications development ultimately depends on their meeting that challenge. For one thing, private investors have proven more willing than governments to invest in new technologies. A government monopoly, for example, would probably not have the incentive to place low earth orbit satellites capable of providing high-speed voice, video and data services around the globe. But private *companies are already* doing it.

Because of such examples, the information revolution has made billions of dollars of private capital avilable to fund telecommunictions infrastructure development. More than 40 telecommunications companies, inclding operators in Argenina, Ghana, South Africa and the *Philippines*, have been pivatised since 1984, raising $159bn in private capital.

The digital information age is changing the way we live. When you walk into an elementary school you see fourth graders logging on to the internet

The rest of the world needs to follow suit.

But privatisation is not enough. If carriers are allowed to remain monopolies, only a select group of private investors will receive monopoly profits. That penalises consumers and cripples the economy. Even a privatised monopoly will be slower, less efficient and less innovative at building a network. Meanwhile services will be more expensive.

That is why a second *ingredient is essential:* competition. In those countries that have permitted competition, the benefits to consumers in the form of lower prices and better services have been undeniable.

According to one recent study, prices for international service have declined by 78 per cent in the UK and by 60 per cent in Japan. Figures from the Federal Communications Commission indicate that consumers in Chile, which instituted a regime of cut-throat competition in the mid-1990s, have enjoyed cuts of 90 per cent.

Because the evidence is so compelling, several countries including Hong Kong, Singapore and Mexico recognised the problems inherent in their monopoly policies and ended their carriers' monopolies earlier than planned.

But that is not enough either. This is a system that needs not just government oversight, but also highly independent regulation. Governments should not provide *telecommunications* services. But they can act as guardians of competition. And they can even champion new entrants in the market. In fact, the transition from monopoly to competition will require a heavy dose of regulatory intervention. Competitors must be able to gain access to existing networks at fair prices if competition is properly to take root.

In order to ensure that a competitive and liberalised market benefits consumers, governments must establish regulatory authorities independent of the incumbent *operator* and shielded from political pressure. These regulators must have licensing and enforcement authority in order to establish a fair, transparent and predictable regulatory process.

Privatisation. Competition. Independent regulation. Those are the keys to ensuring that everyone, rich and poor, urban and rural, in all regions of the globe can have access to the opportunities that the information age is so rapidly creating.

We have not achieved Hawthorne's vision. At least not yet. But we are on the right road.

The author is chairman of the Federal Communications Commission

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FINANCIAL TIMES

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Wednesday May 13 1998

Japan and the G8

Pity poor Ryutaro Hashimoto, Japan's prime minister. Whenever he goes abroad he is lectured on Japan's economic failings. This weekend's summit of the group of eight industrial countries will be no exception. How might the Japanese prime minister respond?

Mr Hashimoto could say that the March stimulus package is different from its predecessors. He might even be right, since the government argues that the stimulating effect of the Y16,600bn (£75bn) package will add between 2 and 3 per cent to gross domestic product. He could also note the decision to inject large amounts of public money into the banking system, taken last year. The government now expects the 19 biggest banks to write off Y10,300bn in non-performing loans this year, a substantial proportion of the Y16,100bn in non-performing loans identified last September.

Unfortunately for Mr Hashimoto, these belated U-turns will be greeted with scepticism, for three good reasons: Japan's history of denial, inadequate packages and further denial; scepticism about the statistics on banks; and doubt whether even the latest package will more than offset the economy's downward slide.

Nevertheless, Mr Hashimoto is entitled to make at least two strong points to western leaders, in his turn. One is that Japan's longer-term solution has to include a substantial and sustained current account surplus, given its high savings and limited domestic investment opportunities. The second is that the programme of radical de-regulation they recommend is very likely to make the short-term situation worse.

What would happen, for example, if employers decided to divest themselves of redundant workers? Unemployment would jump and already widespread insecurity would increase, so creating still higher propensities to save than today. Again, what would happen if western notions of shareholder value were to permeate companies? Current investment plans would be slashed. The combination of higher saving and lower investment could push the economy into a slump.

In all probability, what is needed is a combination of extremely aggressive fiscal and monetary pump-priming now, with radical de-regulation in the medium to long run. But the yen is then likely to stay weak and the current account surplus to grow.

Mr Hashimoto's peers are right to remind him of his responsibilities, but they need to realise how intractable Japan's challenges have become. Not only must they eschew simplistic slogans; they must recognise that a solution will require them to tolerate a larger Japanese surplus as well.

Burying Ilsa

A touch of spring has recently come to relations between the US and the European Union, prompting a quest on both sides of the Atlantic for closer partnership. The new mood is welcome. But if it is to prove more than a passing fancy, old quarrels must first be buried. None more urgently than the dispute over US extra-territorial sanctions legislation.

A drive is under way to reach a settlement at Monday's US-EU summit in London. There are signs that differences are narrowing over one point of contention, the Helms-Burton anti-Cuba law. Much hard bargaining remains. But the outlines of a deal now seem to be taking shape.

A potentially bigger stumbling block, however, is the Iran-Libya Sanctions Act (Ilsa), directed at foreign investors in the two countries' energy industries. Toppling Cuba's Castro regime is a uniquely American obsession. But Iran's strategic Middle East location, large energy reserves, past sponsorship of terrorism and quest for nuclear weapons raise much wider geo-political and economic concerns.

The EU says that, unless the threat of Ilsa sanctions is lifted, there can be no deal. As well as insisting that the US absolve Total of France over its role in a $2bn Iranian gas project, Brussels wants a waiver under Ilsa for all European companies. EU members solidly support that demand.

That poses a dilemma for Bill Clinton. Although he has the power to waive the enforcement of Ilsa, using it could anger Congress. It could also prompt a rush of European investment into Iran, unleashing pressure from US oil companies for freedom to do likewise, thereby undermining US sanctions policy.

Mr Clinton should brave these risks and rapidly grant a waiver. It is in any case unclear that US sanctions are more effective than Europe's preference for cautious engagement in bringing Tehran to heel. But the decisive argument is that harmonious US-EU relations are much too important to be jeopardised by differences over tactics towards Iran. Furthermore, as long as Ilsa remains a running sore, the US and EU will find it hard to formulate a common stand towards Tehran.

The EU needs to do all it can to assist Mr Clinton by showing genuine commitment to that goal. That does not require subservience to US dictates. But it does mean quashing any suspicion that Europe's stance is based less on principle than on commercial opportunism.

Monday's summit offers a real chance to make a breakthrough. Seizing it would remove a dangerous irritant from transatlantic relations. It would also send a strong signal that the US and EU really are serious about deepening their partnership.

Köhler's turn

Fifty-three years after the end of the second world war, it is high time to consider a German candidate to head a major multinational body. Good news, then, that Germany plans to nominate Horst Köhler as president of the European Bank for Reconstruction and Development.

This time the EU must avoid the bickering which surrounded Wim Duisenberg's appointment at the European Central Bank. It should throw its weight behind Mr Köhler, and he should accept the job. The EBRD would benefit from his long experience of financial diplomacy, including years as a G7 sherpa.

Nationality should not matter in such appointments, but it almost always does. The politicians who make the decisions cannot resist playing to their national audiences. French leaders, especially, regard putting Frenchmen in high international places as a major national interest. Other countries often end up letting France have its way mainly to avoid embarassment. Appointing a German at the EBRD, in succession to two Frenchmen, would show that Paris can no longer take such jobs for granted.

The EBRD requires strong leadership. The long hiatus since Jacques de Larosière retired in January has hurt its morale and undermined its cohesion. The new president must help set clearer priorities, resolving contradictions between the demands of the bank's 60 member countries and organisations.

Among these are differences about which transition states deserve most support. The US, the UK and Germany favour concentrating on Russia and other ex-Soviet states, which have the greatest difficulty in attracting commercial capital, while France and some other EU members want EBRD money to help finance EU accession costs in central Europe.

A related argument concerns treatment of risk. The EBRD is required by its charter to follow sound banking principles, but also to operate in high-risk countries. Some members favour caution, others say the bank's *raison d'être* is to go where others fear to tread. The president must cut a clear path through this jungle.

He should also look carefully at the bank's structure. Operations are still supervised by a cumbersome board of 23 resident directors, each with their own office, as established by the original charter. Every lending decision, however small, must pass this board. Each director has the right to ask questions and demand information from EBRD staff. This wasteful system can be changed only by member governments. But the new president must at least start a quiet campaign for reform.

Explosion of self-esteem

Amy Louise Kazmin and **Quentin Peel** explain why India took the drastic step of testing a nuclear bomb and ask how the rest of the world will react

Mohammed Nawaz Sharif, prime minister of Pakistan
Jiang Zemin, president of China

India was yesterday celebrating its forced entry to the club of nuclear powers, after the successful underground testing of an H-bomb, a trigger device and a tactical nuclear weapon. The rest of the world looked on with undisguised alarm.

Scarcely a voice was raised in Delhi to question the wisdom of the government's decision to abandon its ambiguous status – of possessing a recognised nuclear potential but no credible nuclear deterrent – by carrying out tests.

Press and politicians vied for superlatives to praise the event and the scientific achievement behind it. The Pioneer newspaper described it as "an explosion of self-esteem", while the Indian Express, in a front-page editorial, called it "a jump-start to India's dormant, frozen spirit".

In neighbouring Pakistan, the tests aroused a predictable wave of defensive nationalist fury, with demands for an instant response to demonstrate Islamabad's comparable nuclear capacity.

As for the rest of the nuclear and non-nuclear world, even India's closest allies, such as Russia, expressed abhorrence and dismay. President Boris Yeltsin said: "India has let us down". President Bill Clinton was said to be "deeply distressed". Japan threatened to freeze its $1bn annual aid programme, while Britain declared the entire European Union "surprised and disgusted".

The contrast between domestic euphoria and international condemnation could scarcely have been starker. Yet there seems to have been a classic dialogue of the deaf: both India's action, and the international reaction, could have been foreseen.

The question now is whether New Delhi may have miscalculated. Instead of forcing its way to the international top table, has it left itself threatened with isolation? As for the outside world, the challenge is whether to believe the Indian government's protestations of a commitment to total disarmament or whether to punish it behind a wall of sanctions, which might simply fuel a new regional arms race.

For 24 years, India has straddled the nuclear fence. After detonating one nuclear device – which it claimed was for "peaceful" purposes – in 1974, Delhi refrained from further tests or weapons development, calling instead for global nuclear disarmament.

But in recent years, Indian security experts said the country's ambiguous position had become increasingly pointless and even counter-productive. Under fierce pressure from the US to sign the comprehensive test ban treaty in 1996, the Indian government had to decide whether it would finally exercise its nuclear option or foreclose on it for good. It refused to sign, a move that led inexorably to this week's triple tests.

"It was its last chance to make up its mind," says Brahma Chellaney, professor of security studies at the Centre for Policy Research, an independent New Delhi think-tank. "They had to push ahead or be left with an option that was an option in name only."

Air Commodore Jasjit Singh, director of the Institute of Defence Studies, believes the move had become inevitable. One of a three-man committee reviewing India's entire defence strategy, he has little doubt about the main purpose of a nuclear deterrent. On one wall of his office he boasts an official Chinese map of the region, showing a large slice of north-east India – Arunachal Pradesh and Sikkim – as part of China.

"It is not Pakistan. It is the China factor," he said in an interview last year. "It is taken for granted that we must do something to prevent any repetition of [the border war in] 1962," which saw the Indian army humiliatingly defeated. "Who is competing with India for investment and for markets? China. Where is the ideological competition? China. And we are face to face on a difficult border, with outstanding territorial disputes.

"We need to be friendly with China. But on the other hand, an insurance policy is a necessity. That requires a minimum deterrent."

Yet behind India's security concern lies a deeper psychological need: to be regarded as a big player on the international stage. It was this that probably persuaded the new coalition government, led by the Hindu nationalist Bharatiya Janata party, to carry out the nuclear tests, thus reversing five decades of foreign policy based on moral suasion, not force. Many Indians feel it has been long overdue.

"India is recognising the attributes of a big power – that talk and rhetoric and moralising isn't going to get you anywhere," says Bharat Karnad, professor of national security studies at the Center for Policy Research. "It's a hard-headed view of the world as it is, rather than the world as Indians would like it to be."

The biggest resentment is that the US seems obsessed with China, in spite of (or perhaps because of) its suspected exports of nuclear technology. Meanwhile, India is treated as a "minor league" player.

The Indian government is likely to have thought long and hard about the likely sanctions response of the outside world to its nuclear initiative. Diplomats in New Delhi admit there may be few sanctions that would really hurt and certainly none that could prevent its further nuclear development. Yet the danger of international isolation is real. The US has to calculate how firmly it needs to respond in order to dissuade neighbouring Pakistan from rushing down the nuclear armaments path itself.

"India has miscalculated before, as when it backed Iraq in the Gulf war," says Damon Bristow, head of the Asia programme at the Royal United Services Institute for Defence Studies in London. "The US-India relationship has improved a great deal in recent years. I don't believe they have thought through the consequences. The Indian economy needs foreign investment and foreign technology. The US is its largest source."

Another miscalculation could be with China. "It is not obvious that by being robust to China you persuade it to be nice, to stop arming Pakistan and eventually abandon its own nuclear deterrent," says one western diplomat in Delhi. "It could launch an arms race that India cannot hope to win."

Anything you can do

India's nuclear test has generated huge uncertainties both for regional security and for international negotiations to stem development and testing of nuclear weapons.

Its action puts Pakistan in a serious quandry. Islamabad will clearly be tempted, for reasons of political machismo as much as technical need, to match its neighbour's test with one of its own. The US has been pressing it, using conventional arms sales as a lever, to restrain its nuclear development, and in the past few years Pakistan has reverted to producing only low-enriched uranium, unsuitable for weapons.

As a result, Pakistan is reckoned to have fissile material for fewer than 10 weapons, a fraction of Indian stocks. A test could use up a substantial portion of this; a display of its nuclear prowess would thus amount, according to John Simpson of the Mountbatten non-proliferation studies centre at Southampton university, to "unilateral disarmament".

A Pakistani test would leave Israel awkwardly exposed as the world's only "ambiguous" nuclear state: it has nuclear weapons, but has neither signed the nuclear non-proliferation treaty nor carried out an overt test.

Although nuclear weapons are not directly relevant to Israel's security problems with Palestine, Mr Simpson believes Israel might now be tempted to use the nuclear issue to resist US pressure over ceding land for peace. If Washington persists, he suggests, Israel could threaten to declare itself nuclear. The downside would be that Arab states might then pull out of the non-proliferation treaty themselves.

Iraq and Iran are signatories to the treaty. UN inspectors believe Baghdad no longer has any fissile material. However, there is suspicion – though no firm proof – of nuclear weapons development in Iran.

Possibly aware that its test could spur other countries to declare themselves nuclear, India sugar-coated its test announcement by repeating its dedication to "truly comprehensive" disarmament. It said it might now sign new commitments, though that is unlikely to mean the non-proliferation treaty, which Delhi regards as favouring nuclear "haves" (those who had nuclear weapons before 1967) over the "have-nots".

However, India on Monday indicated it would be prepared to consider adherence to some of the undertakings in the comprehensive test ban treaty. For a country that did its very best to block the treaty when it was signed in 1996, this is new.

Delhi appeared to lay down at least one condition – a bar on the very low-yield "subcritical" tests permited under the treaty for acknowledged nuclear states, together with computer simulation as a substitute for tests. But there appears to be a terrible Catch-22 with revising the terms of the treaty. It may not be possible to renegotiate until it comes into force; yet it cannot come into force until India, one of 40 countries named as "a necessary signatory", ratifies it.

David Buchan

OBSERVER

Airlift airbrush

The American public relations machine looks set for another triumph in Berlin today when President Bill Clinton flies in to hail the 50th anniversary of the Berlin airlift.

Uncle Sam is leading the razzmatazz celebrating the Allied operation that supplied the 2m West Berliners from June 1948, when the Russians blockaded the city, until a few months after the siege was lifted in May 1949. The US is sending the leader of the free world and an aircraft display: the British are sending a band.

You wouldn't have thought that the idea of an airlift came from the British, who talked the gung-ho Yanks out of forcing land convoys across communist East Germany and then flew side by side with the Americans to take food and fuel to the beleaguered city. Crashes cost the lives of 39 British airmen, 31 Americans and at least nine Germans.

Berlin's city government also forgot a few details about one of its darkest hours: it put together some commemorative bumf with lots of pictures of aircraft – all of them American. Some helpful Brits put the city authorities right before it was published.

Walk-on part

Bill Clinton will be spending a couple of days in Germany, but he can spare only a few hours for next week's 50th anniversary: the World Trade Organisation's Geneva bash to mark the birthday of the world trading system.

Clinton is dropping in on May 18, the day before the official WTO knees-up. Between being whisked to and from the airport and addressing a WTO ministerial meeting, he will be on the ground for four hours – tops.

The schedule does have the virtue of lengthening the odds against any embarrassing encounters with cigar-chomping scourges of capitalism: Cuban leader Fidel Castro is in town for the World Health Organisation's annual jamboree and will be staying on for the WTO beanfeast.

Number crunch

Hungary's Postabank has had a bad couple of years, running up $60m in losses and suffering a $130m run when depositors in its core banking business had a bit of a crisis of confidence last year.

The government decided that another bail-out was needed for Postabank's bundle of businesses. A complicated deal involving Russian debt, Gazprom and offshore funds of unclear ownership seemed to be going slowly, so ministers decided that the Hungarian Development Bank and two other state-controlled outfits would put up the dosh – giving the development bank a big say over the running of Postabank.

Oops. Postabank sent the three state bodies an account number that no longer existed. If some bright spark hadn't spotted the slip, the money would have been sent back to the rescuers three days later – after the deadline for the capital injection. This would have delayed the whole process for goodness knows how long, leaving the current management under big boss Gabor Princz more time to run up more debts.

Princz now has to prepare for a meeting with his new shareholders to discuss the bank's bad loan portfolio – perhaps as early as next month. The word is that he might even be in another job before the summer holidays. Let's hope any golden handshake finds its way into the right bank account.

Blissful unions

Daimler-Benz's merger with Chrysler could strain the bonds of brotherhood in the international labour movement.

The new company will have a 20-strong supervisory board – 10 appointed by shareholders, 10 by employees. The two companies will each nominate five members, but the word in the US is that the United Auto Workers will get just one of the 10 workers' seats and that IG Metall, the German union movement's biggest battalion, will hog the rest.

Such an arrangement would hardly reflect the numerical balance of the workforce – 120,000 at Chrysler and 300,000 at Daimler suggests that a 7-3 split might be fairer. It looks like the workers of Chrysler have nothing to lose but their chairs.

Stop press

Ignorance of the law is no excuse, they say, and Vietnamese premier Phan Van Khai is doing his bit to spread the word. After all, the socialist republic is keen to become a country governed by laws, rather than the whims of the Vietnamese Communist Party.

The English-language Vietnam News says Khai has instructed the Ministry of Culture and Information "to publish information on laws through the mass media". Decision 02/1998/CT-TTg of the premier's office instructs the media to "devote more space for dissemination of information on laws, and calls on reporters to write more stories about legal issues".

This worthy idea was issued on January 2 and the government rushed into print with it. Yesterday.

High standard

The Rex Grenada Hotel, one of the swishest hostelries on the eastern Caribbean island of Grenada, was proud to fly the flag of Taiwan at the weekend to boast that Lien Chan, Taiwan's vice president, was staying there on an official visit.

Someone had forgotten that China's delegates to the Caribbean Development Bank meeting were also guests at the Rex. Taiwan's flag didn't fly for long.

The Financial Times

100 years ago

Strange Results In Argentina
We learn from the report of the Argentine Conversion Office, as given in our Buenos Ayres namesake, that some very strange banking results have been obtained in the country during 1897. For instance, the Santa Fe Provincial Bank had at the time of the Government inspection deposits on call amounting to $2,830 gold and $912,000 paper, whereas its available cash was $972 gold and only $96,180 paper, while, though bills to the amount of $2,671,431 paper had been discounted, the inspector considered that 80 per cent of these were an irretrievable loss. Another State bank is a creditor to the Provincial Government to the extent of more than the capital supplied by the Government to start it with.

50 years ago

Netherlands Queen Abdicating
The Hague, May 12. Queen Wilhelmina, bowing to "the burden of increasing years," told her subjects and the world by radio to-day that she will abdicate in favour of her daughter, Princess Juliana, early in September. The 67-year-old Queen has reigned over the Netherlands and its colonial possessions for 50 years.

FINANCIAL TIMES

WEDNESDAY MAY 13 1998

THE LEX COLUMN

Helmut's hope

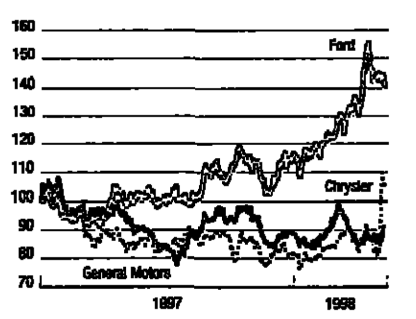
"Our upswing is coming," say Chancellor Helmut Kohl's election campaign posters. Ah yes, but not yet, have retorted Germany's six leading economic institutes. By shaving their 1998 gross domestic product forecasts by 0.2 per cent to 2.6 per cent and calling for faster reform, they have hardly endorsed his management of the economy.

Even after four consecutive monthly dips, seasonally adjusted unemployment is still painfully high at 11.4 per cent. But it is some 0.4 percentage points off its December peak. And the institutes' forecast that the annual average will stay around this level clearly implies further falls in the second half, even if this nuance has been lost in the political hurly-burly.

Domestic demand should continue to strengthen slowly. Higher wage increases and a cut in the solidarity surcharge should fuel a rise in disposable income that will help consumer cyclical stocks, despite a rise in value added tax. And with inflation at just over 1 one per cent *hardly a concern for the Bundesbank, the* case for an interest rate rise that stifles the recovery looks thin on purely domestic grounds.

If the real impact of this upturn arrives too late to save the chancellor's political hide, investors should draw some comfort from the recent noises from Gerhard Schröder, the Social Democratic party's chancellor candidate. Making lower business taxes a priority is a start. However, large cuts are still unlikely given the need to check the growth of the fiscal deficit.

US car makers
Share prices relative to the S&P Composite



Source: Datastream/ICV

Fortis/Générale de Banque

On paper, a merger of Belgo-Dutch Fortis and Belgium's Générale de Banque is a shareholder's dream. This is the sort of "in-market" merger with the potential to deliver big cost reductions. Générale de Banque and CGER, Fortis's Belgian banking arm, overlap considerably. Using a rule of thumb that in such bank deals there is scope to strip out about a third of the cost base of the smaller institution would imply that profits could be boosted by 15 per cent. Add in the fact that Fortis is one of the world's most successful bancassurers and there is further revenue-enhancing potential from selling insurance products to Générale de Banque customers. So much for potential. The reality may be less rosy. That is partly because a cut-throat approach to branch closures may not be politically acceptable in Belgium. It is also because Fortis's tough-minded managers have apparently been forced to accept that Générale de *Banque's less ruthless top team will con*tinue to play an important role. It is also too early to know which group of shareholders will gain most from this merger – as the terms of the proposed deal have yet to be announced. One thing, though, does seem pretty clear; a merged Fortis/Générale de Banque will be one of Europe's top 10 banks with a market capitalisation over $30bn. As soon as this deal is digested, the highly-acquisitive Fortis will be sniffing around for the next.

General Motors

With DaimlerChrysler smoothly overtaking on one side and a newly cost-conscious Ford revving up, General Motors is back in the slow lane. Over the past three years its shares have badly lagged behind those of its rivals and the US market generally.

Meanwhile profits have been forging ahead, leaving the valuation at a level that looks low even by Motown's standards. At $72 a share the group is capitalised at $48bn. Subtract the near-$17bn value of GM's 75 per cent stake in separately-quoted Hughes Electronics. The Delphi car parts division should be worth another $11bn on 10 times forecast 1998 earnings. And the group has a $7bn cash hoard. That gives an implied value of $13bn for the worldwide automotive businesses (including the GMAC financing unit), which are expected to produce net profits of $4.4bn this year – a price/earnings multiple of less than three.

A lowish valuation is no doubt deserved. GM's margins are thinner than its peers, and it faces heavy investment to revamp its stale model range and improve efficiency. But the main problem has been that, share buy-backs apart, GM has been unwilling to think more radically. It does not plan to demerge Hughes, while the promised spin-off of Delphi keeps receding into the future. Both these moves could unlock substantial value. Perhaps the Daimler/Chrysler merger is the catalyst that will prod GM into action.

Body Shop

Anita Roddick will not appreciate the comparison, but Body Shop's woes call Laura Ashley to mind: controversial chief executive, *small but powerful global brand, dual manufacturer/retailer role* and troubles in the US. The comparison, of course, is unfair; Body Shop is still making a decent £38m profit and has a healthy balance sheet. But sluggish sales and stagnant profits, culminating in the appointment of a new chief executive, are evidence all is not well.

Arguably Body Shop was seduced by the power of the brand into believing it could sell itself. This was part naivety, part arrogance that the group's distinctive roots would allow it to continue succeeding on its own terms. But size demanded conformity. Nowhere has this been clearer than in the US where Body Shop's 290 stores lose money. The ephemeral magic of the global brand may be alluring, but the tills will not jangle without stooping to accommodate local tastes. Moreover, the big jump in stocks is evidence that brilliant product development without retail discipline can be costly.

Will new man Patrick Gournay set things to right? That depends on how much latitude he is given. The company is top-heavy, but if the will to reform is there he may yet succeed. At a 50 per cent discount to the market, the shares are cheap. Investors, though, should wait until the changes show up in the numbers before buying.

Brussels criticises plans to introduce a 35-hour week

French and Italian schemes will hit labour flexibility, says Commission

By Lionel Barber in Brussels

The European Commission will today criticise the French and Italian governments' plans to introduce a 35-hour working week.

The Commission argues in its proposed macro-economic guidelines for the European Union that the planned legislation is not conducive to promoting flexible labour markets and job creation.

The Commission is understood to have toned down the criticism, but it is still a pointed reminder to France and Italy that employment policies are no longer "off-limits" for Brussels. EU finance ministers will consider the guidelines next week.

The process of peer review is set to continue today when the Commission debates national plans submitted by the 15 EU member states to act on the 18m people out of work in the union.

The plans stem from an agreement last November that member states should commit themselves to quantifiable and verifiable targets for improving labour market flexibility, employability, vocational training and reducing the number of people who drop out of school early.

All those under 25 should, in principle, be offered a new start before being out of work for six months. The same guarantee should apply to adults out of work for 12 months.

EU leaders will evaluate progress at the Vienna summit in December. The Commission is reserving the right to make recommendations if it considers that member states are off course, a senior official said yesterday.

Despite the mild criticism of French plans for the 35-hour working week, the initial Commission response to the government's employment action plan is favourable.

The Commission believes that Paris is on course to meet its planned spending to reduce long-term unemployment. "They get a silver medal," said one official.

Sweden, the Netherlands, Denmark and latterly the UK appear to be ahead of the pack on tackling long-term youth unemployment. France, Ireland, Luxembourg, Spain, Belgium and Finland are strengthening their commitment within clearly fixed targets or timetables, according to the Commission.

Italy, Portugal and Greece are singled out for not supplying sufficient detail on how they intend to meet the 19 guidelines in the agreed timetable. Italy and Portugal are also criticised for not showing clearly how they intend to tackle long-term unemployment.

By contrast, France, Luxembourg, Spain and the UK have offered detailed descriptions of how they are intervening at an early stage to prevent the same problem.

Member states have submitted a welter of information on how they intend to meet the guidelines, but details on spending are sketchy, says the Commission.

One reason is that governments submitted their employment plans after the decisions on 1998 budgets were in place.

German recovery forecast, Page 2
Second coming of Delors, Page 10

Indonesian security forces kill four anti-Suharto protesters

By Sander Thoenes in Yogyakarta and Reuters in Jakarta

Indonesian security forces killed four student protesters in Jakarta yesterday, raising concerns that violence was escalating across the country as more people demanded President Suharto's removal from office.

Staff at a hospital mortuary said four corpses, all identified as male students of Jakarta's Trisakti University, had been brought in following a rally of at least 1,000, which blocked traffic on one of the city's main thoroughfares.

Hospital officials said two people *had been brought in with gunshot* wounds, one with a knife wound and 17 had suffered injuries from beatings.

Dozens of weeping students gathered outside the mortuary. Some observers said riot police had opened fire on the crowd after students beat up an undercover intelligence agent.

The assistant rector for student affairs at Trisakti, a private Christian university, said several students had been injured by gunshots and stones.

Trisakti is one of the most expensive universities in Indonesia. Many of its students are from wealthy ethnic Chinese families or from the families of top government officials. They had previously been less active than other students.

The student protests gained fresh momentum last week when the government sharply raised prices for fuel, public transport and electricity, triggering a rise in food prices and other commodities.

Hospital staff could not say *whether yesterday's victims had* been hit by real or rubber bullets.

Seven more people were wounded during two demonstrations in Bogor and Kapung, while five peaceful protests were held in Jakarta and one in Yogyakarta. More protests are scheduled for today. Officers beat a bystander to death in Yogyakarta on Friday, and students killed an undercover agent in Bogor at the weekend. Last week, two protesters were killed after student demonstrations escalated into rioting and looting by thousands of citizens in Medan.

Indonesia's security forces, although powerful, are only 500,000 strong and analysts say they are stretching themselves to contain the protests.

Student leaders say they will mount their largest protests yet on May 20, a national holiday in honour of Indonesia's first nationalist movement in 1908.

"Any crackdown by the army won't stop the students," said Lance *Castle, an Australian professor of* sociology, who watched protests in Yogyakarta.

"I have never before predicted that Suharto's days are numbered but I can't see how he can get out of this one."

Mr Suharto, 76, is out of the country, attending a summit of emerging nations in Egypt.

CONTENTS

US pilot Gail Halvorsen, who helped supply Berlin during the 1948 Soviet blockade, meets resident Ingrid Gliesche at an anniversary event

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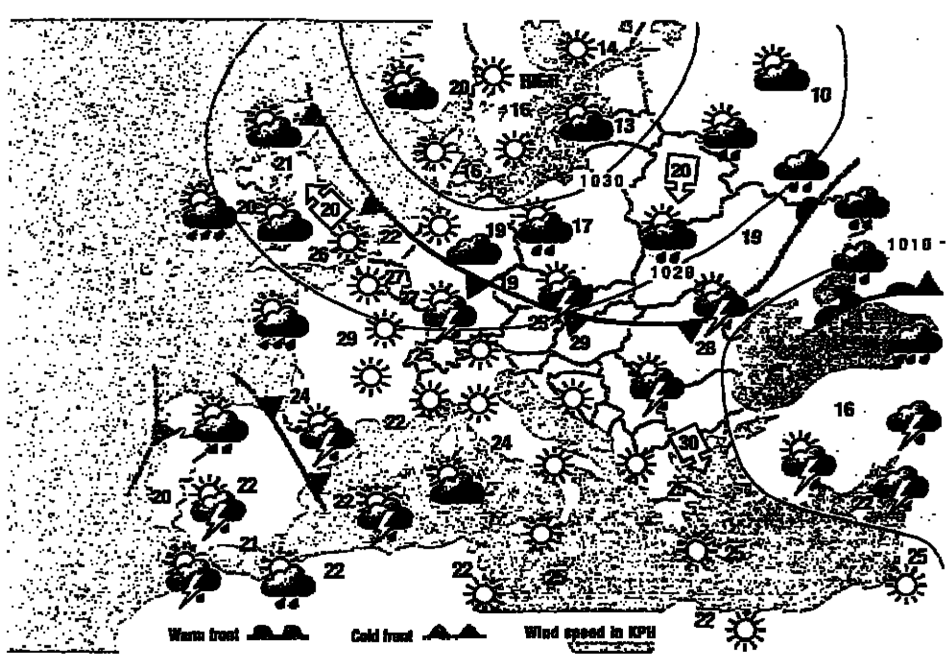
FT WEATHER GUIDE

Europe today

Scandinavia will have plenty of sunshine, although there will be isolated showers in the mountains in northern and western Norway. Central and western Europe will be warm with sunny periods, but afternoon thunderstorms are likely, especially over the Alps. Spain and Portugal will remain unsettled, with sunshine giving way to showers and thundery rain. The central Mediterranean will be sunny and hot. Greece will be sunny, but Cyprus will be thundery. It will be cool and showery in north-east Europe.

Five-day forecast

Central and southern Scandinavia will remain fine with sunshine. North-east Europe will have showers and north-west Europe will become less warm. Spain and Portugal will continue showery, and it will become thundery over *southern France, the Alps and Italy*.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	43
Accra	Fair	33
Algiers	Shower	22
Amsterdam	Sun	22
Athens	Fair	25
Atlanta	Fair	32
B. Aires	Fair	18
B.ham	Shower	24
Bangkok	Thunder	35
Barcelona	Rain	20
Beijing	Sun	28
Belfast	Fair	21
Belgrade	Fair	28
Berlin	Fair	19
Bermuda	Shower	26
Bogota	Cloudy	19
Bombay	Sun	33
Brussels	Sun	27
Budapest	Thunder	29
C.hagen	Sun	16
Cairo	Fair	27
Caracas	Fair	30
Cardiff	Fair	23
Casablanca	Shower	21
Chicago	Fair	29
Cologne	Sun	27
Dakar	Sun	26
Dallas	Sun	32
Delhi	Sun	41
Dubai	Sun	43
Dublin	Fair	20
Dubrovnik	Sun	24
Edinburgh	Fair	20
Faro	Shower	20
Frankfurt	Fair	28
Geneva	Fair	25
Gibraltar	Shower	21
Glasgow	Fair	21
Hamburg	Fair	18
Helsinki	Sun	14
Hong Kong	Shower	30
Honolulu	Fair	29
Istanbul	Thunder	16
Jakarta	Fair	32
Jersey	Fair	21
Johannesburg	Sun	14
Karachi	Sun	38
Kuwait	Sun	43
L. Angeles	Shower	18
Las Palmas	Fair	24
Lima	Fair	26
Lisbon	Shower	20
London	Sun	28
Lux.bourg	Sun	27
Lyon	Sun	27
Madeira	Fair	21
Madrid	Shower	22
Majorca	Thunder	22
Malta	Sun	25
Manchester	Fair	25
Manila	Shower	35
Melbourne	Fair	19
Mexico City	Sun	31
Miami	Sun	32
Milan	Sun	29
Montreal	Sun	22
Moscow	Shower	10
Munich	Sun	27
Nairobi	Thunder	27
Naples	Sun	25
Nassau	Fair	30
New York	Fair	19
Nice	Fair	23
Nicosia	Thunder	22
Oslo	Sun	20
Paris	Sun	29
Perth	Fair	23
Prague	Fair	19
Rangoon	Fair	32
Reykjavik	Rain	10
Rio	Fair	27
Rome	Sun	24
S. Frsco	Shower	16
Seoul	Sun	26
Singapore	Thunder	32
Stockholm	Sun	16
Strasbourg	Sun	27
Sydney	Fair	20
Tangier	Cloudy	21
Tel Aviv	Thunder	25
Tokyo	Shower	21
Toronto	Cloudy	25
Vancouver	Shower	17
Venice	Sun	27
Vienna	Fair	25
Warsaw	Fair	17
Washington	Cloudy	21
Wellington	Shower	14
Winnipeg	Shower	21
Zurich	Sun	27

FINANCIAL TIMES
COMPANIES & MARKETS
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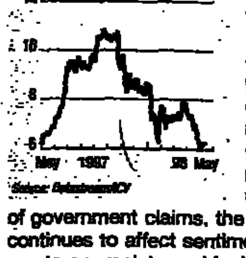
INSIDE

C&W to outline European plans

Dick Brown, chief executive of Cable & Wireless, the telecommunications group, is not one to flag his intentions to the world before the moment is right. But at today's results meeting he is promising to set out his strategy for Europe. Most interesting is the planned sale of 20 per cent of Bouygues Télécom, the French mobile operator, to Telecom Italia. The latter is not an obvious partner for C&W, but it is becoming clear that the alliance is the foundation for Mr Brown's territorial ambitions. Page 19

Devaluation fear haunts Caracas



Venezuela has been struck again by political uncertainty and economic volatility. Last week, the mounting uncertainty over the outcome of December's presidential elections combined with weak revenues from oil to push the Caracas stock market down to a 13-month low. And in spite of government claims, the fear of a devaluation continues to affect sentiment. The bolivar continues to appreciate and is, by some estimates, overvalued by about 30 per cent. Page 34

Russia's oil barons feel the squeeze

Russia's oil barons, who a few years ago were bragging that they would soon be taking over the oil multinationals, have been battered by the fall in oil prices. But some observers argue that the current price pressure could be just what Russian oil groups need to grow into world-class corporations. Page 24

ADB scales down bond offering

The Asian Development Bank has scaled down today's global bond offering, partly because of continued market concern about the economic and social situation in South Korea and Indonesia. The $2bn bond will help fund some of the ADB's contribution to the International Monetary Fund-led rescue packages for Korea, Indonesia and Thailand. Page 22

Karachi hit by N-test fall-out

Rising regional tensions in the wake of India's nuclear tests sent Karachi down almost 5 per cent. Bombay recovered from a sharp early fall as investors had second thoughts about the impact of possible international sanctions. Page 34

Investors take courage and sell yen

Investors sold the yen yesterday, taking the risk that the Bank of Japan would intervene for its currency. Japan's Economic Planning Agency said conditions were becoming more severe. Page 23

Indian derivatives contract approved

India's financial regulator has given the go-ahead for the launch of the country's first equity derivatives contract, which will start trading in about three months. Page 16

COMPANIES IN THIS ISSUE

CROSSWORD, Page 24

MARKET STATISTICS

Générale backs Fortis merger

Directors of Belgian bank bury differences in unanimous vote to link with financial group

By Neil Buckley in Brussels

Directors of Générale de Banque, Belgium's biggest bank, overcame their differences yesterday and backed a merger with Fortis, the Belgo-Dutch financial group, to create one of Europe's 10 biggest banks, with a total market capitalisation of about $33.6bn.

The unanimous approval of the 28 directors came as a surprise, only eight days after a meeting secured outright support from only nine directors.

The bank has 27,100 employees – 15,000 of them in Belgium – while the twin-centred Belgo-Dutch financial services group Fortis has more than 35,000 employees.

The decision represents a victory for the intense lobbying effort undertaken by Fortis in the last week to convince Générale's directors of the merits of the merger.

Strong pressure has also been exerted by the bank's main shareholder, the holding company Société Générale de Belgique, itself controlled by France's Suez Lyonnaise des Eaux. The banking deal is linked to a broader restructuring plan involving the French parent buying out minority shareholders and taking full control of SGB. But Générale de Banque also won important concessions. Its statement yesterday made clear the bank would keep its identity as the "parent" group of Fortis group's banking arm. That would bring in the Fortis-owned banks CGER-ASLK, Belgium's fourth-biggest bank by assets, and MeesPierson and VSB in the Netherlands.

Générale's chief executive, Ferdinand Chaffart, will retain that role in the enlarged banking group. It will have its own board, including all existing Générale directors and an equal number from Fortis, chaired by Herman Verwilst, Fortis managing director.

Financial details of the deal remain to be finalised – and must still be approved by the Générale board. The first step is expected to be a share swap of SGB's 29.7 per cent stake in Générale, plus two other investment groups' combined 3.5 per cent stake, with Fortis.

Under Belgian law, Fortis must then bid for the rest of Générale. Analysts speculate the deal is likely to be a share swap of approximately two Fortis AG shares – or one Fortis AG plus 4.4 Fortis Amev shares – per Générale de Banque share, possibly with a small cash premium.

Unions from both Générale and CGER-ASLK have warned the merger could lead to thousands of Belgian job losses. Cost savings of about BFr11bn ($290m) a year could result from cutting the overlap between the banks' branches.

Générale's shares closed up BFr125 at BFr21,700 – before announcement of the board decision – valuing the company at BFr358.6bn ($9.5bn). Shares in Fortis AG, Fortis's Belgian arm, were up BFr150 at BFr10,775, capitalising it at BFr452bn, with Fortis Amev, the Dutch arm, up Fl 3 to Fl 125.2, valuing it at Fl 23.06bn.

Lex, Page 12

Seagram move for PolyGram could cost $10bn

By Alice Rawsthorn in London

Seagram, the Canadian drinks and entertainment group, is formulating a bid for 100 per cent of PolyGram, the world's largest record company, including the 25 per cent of the shares in public issue.

Late last week, Seagram started negotiations to buy the 75 per cent stake in PolyGram owned by Philips, the Dutch consumer electronics concern.

It is believed to want full control of PolyGram, and Morgan Stanley, its advisor, is also preparing an offer for minority shareholders. PolyGram was valued at Fl 18.5bn ($9.3bn) on yesterday's share price, up 40 cents to Fl 102.90. But the total bid is expected to cost Seagram up to $10bn.

Until last Friday Seagram was in talks to acquire EMI, the troubled UK music group. It is believed to be anxious to conclude the PolyGram deal swiftly, but is not expected to agree terms with Philips until next week at the earliest.

Philips, advised by Goldman Sachs, announced last Wednesday that it was reviewing the future of its controlling stake in PolyGram, which owns Europe's largest film producer and distributor, as well as the record labels behind U2, All Saints, Bob Marley, Tricky and Jon Bon Jovi.

The deal would turn Seagram into the world's most powerful music group. It could also merge PolyGram's film subsidiary – in which the Dutch company has invested $1.2bn since 1991 to produce such hit films as *Bean*, *Trainspotting*, *Priscilla: Queen Of The Desert* and *Four Weddings And A Funeral* – into Universal, its Hollywood studio.

In previous deals, Seagram has been content to acquire a majority stake, leaving a minority holding with other investors. When it took control of the Universal film and music businesses in 1995, Seagram paid $5.7bn for 80 per cent from Matsushita, the Japanese electronics group, which kept 20 per cent.

However, Seagram needs to own 100 per cent of PolyGram if it is to merge the latter's film business with Universal Studios, and its record companies with Universal Music.

The necessity of preparing an offer for PolyGram's minority shareholders – which include Fidelity, Scottish Widows, Mercury Asset Management and Wellington – is understood to be complicating the negotiations with Philips.

Edgar Bronfman Jr, Seagram's chief executive, is believed to be determined to clinch the PolyGram deal.

But if it falls through, he might consider another approach to EMI, hoping the management has lowered its price expectations.

Europe's rising star, Page 14
World stocks, Page 34

Top billing: As workmen made final preparations for the opening of the 51st Cannes Film Festival, European film directors, producers and actors were expecting to celebrate the success of locally made films and a revival in the industry after decades of decline. Report, Page 14 — Picture: Reuters

New Deutsche arm in shake-up

By Clay Harris in London

Deutsche Bank has shaken up the management structure of its new wholesale banking division. The move follows the bank's change of focus in placing a higher priority on Europe and giving north America a lesser role than in past years.

The German bank has refined the roles of the two members of its *Vorstand*, or management board, who are accountable for its "global corporates and institutions" (GCI) arm. This was created by integrating the Deutsche Morgan Grenfell investment bank and the German parent's corporate banking operation.

The change is intended to end months of turmoil, caused by the re-organisation and the new emphasis on Europe. The bank has seen several senior executive departures and suffered from poor morale, especially in the US.

Josef Ackermann will take internal management responsibility for all businesses within GCI. Ronaldo Schmitz will have more of an external role, focusing on clients in the Americas, Germany and Switzerland.

Bill Harrison, the former BZW chief executive who joined Deutsche this year, becomes vice-chairman of GCI. He will focus on clients in the rest of the world.

The bank is also making clear that its investment banking division – the corporate advisory arm – will be in the vanguard of its new "one face to the client" policy. Other activities, such as equities, will be expected to align their businesses in support of the corporate advisory side.

Traditionally, each member of Deutsche's *Vorstand* has had a product responsibility as well as a geographical remit, an overlap that inevitably led to ambiguity.

Centre stage for Europe, Page 17

ASkyB's satellite deal faces legal block

By Christopher Parkes in Los Angeles

News Corporation's troubled attempt to break into US satellite television yesterday faced its biggest hurdle so far as the government announced a lawsuit to block the media group's $1.1bn joint venture deal with a cable TV consortium.

The proposed link between News Corp's American Sky Broadcasting and Primestar Partners – controlled by cable TV operators – would be anti-competitive, the justice department said.

Control of ASkyB's licence to operate high-power satellite slots blanketing the US would give Primestar's owners a powerful weapon against the independent satellite companies, which comprise the only viable competition to cable's dominance.

Primestar, a satellite company set up by cable operators to cover mainly rural markets far from their wire services, is at a disadvantage because its medium-power system can broadcast far fewer channels than the 200-plus accessible from high-power systems.

Primestar's system, which has 2.1m users, requires large receiver dishes up to 36in across compared with the high-power satellites that beam signals to 18in dishes. This has meant planning laws have tended to reduce Primestar's access to densely-populated urban markets.

The action against News Corporation, which had been expected, was spurred by strong lobbying from emergent satellite operators such as DirecTV, the market leader, and EchoStar, an aggressive competitor that has fired growth in the sector with price-cutting campaigns.

The cable operators also suffer from a poor reputation among regulators and consumers, and have been dogged for years by complaints of predatory pricing and poor service. Cable subscription rates grew last year at more than three times the rate of inflation.

Primestar is in effect controlled through five leading cable companies – Tele-Communications Inc, Time Warner, Comcast, Cox and MediaOne – which provide services to almost 70 per cent of cabled homes. They also provide top-rated programming while Rupert Murdoch's News Corp offers sport, round-the-clock news and film channels.

BARRY RILEY

Pension fund strategies converge across Atlantic

For years the striking difference between pension funds in the US and the UK was the much higher British exposure to equities. Now, however, investment strategies are converging rapidly in the two countries.

The allocation to domestic stocks is almost the same at a little more than 50 per cent. UK funds still have about twice the allocation to overseas equities, but their exposure has been dwindling.

According to *What Now?*, a report on US pension plans by Greenwich Associates, the consultants, the equity allocation has risen from 50.6 to 61.5 per cent since 1993.

Probably a lot of that increase represents the passive impact of the strength of US equities during this period, and indeed the domestic exposure may have peaked (though the overseas equity allocation will continue to climb from 10.7 to 12.3 per cent by 2000, plan sponsors say).

Over the same period, 1993-97, according to the WM Company, UK funds have reduced equities from 80.1 to 72.4 per cent. This change must have been entirely deliberate. Influences here have included increasing fund maturities and the adoption of a liability-related benchmark, the Minimum Funding Requirement, in the Pensions Act 1995.

There is now the further threat of a UK accounting standard based on market rather than actuarial values, much as in the US. This will encourage risk aversion (ie, lower equity allocations).

Meanwhile, in the US, the cult of equity is still gaining ground. Average expected annual nominal returns on domestic equities have risen from 9.0 to 10.4 per cent between 1993 and 1997. At the same time, expected bond returns and expected inflation have fallen slightly.

Are even these sophisticated professional investors being caught up in irrational exuberance? From the starting-point of sharply higher valuations you might logically expect future returns to be *lower*, not greater.

This argument is examined in the UK context in *PDFM Pension Fund Indicators 1998*, the latest annual edition of which is published this week by PDFM, Britain's third-largest pension fund managers.

Averaged over 35 years, annual real returns on UK equities have been 7.6 per cent. Most of this has been derived from a dividend yield of about 5 per cent. Additionally, dividends have grown at 1.5 per cent over retail prices and there has been a positive revaluation effect.

Now, though, the dividend yield is just 3.25 per cent. Add on the same growth and it is hard to project more than a 4 per cent return unless the revaluation of equities continues for many more years. In fact, mean reversionists like PDFM believe the revaluation effect is more likely to be *reversed*, in which case the prospective long-term return is perhaps 3 per cent.

True, it can be argued that these dividend-based models are obsolete. If companies retain more of their profits perhaps their growth rate will improve. And the historical evidence shows that in periods when inflation is low companies earn much higher real profits. Continued low inflation could therefore imply higher real returns to investors. This underlies some of the US "new paradigm" thinking.

Paradoxically, though, the Greenwich figures show a desire by plan sponsors to diversify away from US equities. Pension plans are expanding in overseas equities and various alternative or "non-correlated" assets.

Do US funds fear the high returns on domestic equities are becoming unusually risky? Certainly Greenwich comments that sponsors may need to be prepared for disappointment. And we know where PDFM stands: its regular allocation to US equities for UK balanced funds is precisely zero.

TELECOMS GERMAN OPERATOR SEES CHARGE OF UP TO DM4.5BN AND CLAIMS RULING IS THWARTING ITS CABLE-TV PLANS

Deutsche Telekom hits out at regulator

By Ralph Atkins in Bonn

Deutsche Telekom, the German telecommunications group, said yesterday it would have to take a charge of between DM3.5bn and DM4.5bn ($2bn-$2.5bn) because of a regulatory ruling which it claimed would further hurt its lossmaking cable television activities.

The announcement knocked DM1.10 off its shares, which closed at DM44.30.

This is the latest setback this year for the group, which since January 1 has faced full competition in its main domestic market.

Some analysts warned that if it took the full DM4.5bn as provisions, the group might be unable to maintain its 1998 dividend at DM1.20 a share. They expect pre-tax profits this year of about DM7bn, against DM7.2bn in 1997.

Deutsche Telekom revealed this year that its cable-TV interests, which have 17.4m subscribers, lost more than DM1bn last year. Yesterday, it complained that the telecoms regulator was thwarting plans to raise prices by ruling last month that two-thirds of a price increase introduced in November last year would have to be rescinded from January next year.

The group said it would challenge the ruling in court but warned: "The decision gives rise to uncertainties as to whether further price adjustments in the cable sector will be accepted."

Deutsche Telekom's reaction reflected the tough line taken by Klaus-Dieter Scheurle, the telecoms regulator, against the partially-privatised group.

However, the Bonn-based authority yesterday expressed "astonishment" at Deutsche Telekom's reaction. It said its ruling on cable-TV charges could yet be revised if Deutsche Telekom stepped up investment in the cable business.

Meanwhile, the size of provisions proposed by Deutsche Telekom and the possible effect on the dividend raised suspicions that it wanted the German government – still its largest shareholder – to exert a greater influence over the independent regulatory authority.

Deutsche Telekom is accelerating the reorganisation of its cable business into a separate subsidiary with the aim of seeking partners to take stakes in regional operations. It has not ruled out selling the entire business, although there is a shortage of potential investors interested in buying more than a part.

Gerd Tenzer, Deutsche Telekom board member, warned future earnings could be affected by other "crucial" regulatory decisions in the pipeline. These include a decision expected in July on the terms on which Deutsche Telekom has to offer "unbundled" – unrestricted – access to competitors using its infrastructure to connect to the homes of potential customers.

A second decision affects the terms on which companies that have not invested in their own infrastructure can simply "re-sell" Deutsche Telekom services.

Danish strike takes toll on SAS

By Tim Burt in Stockholm

Scandinavian Airlines System yesterday said it had lost SKr250m ($32.8m) during the recent 11-day national strike in Denmark, which halted services in and out of Copenhagen – the carrier's main international hub.

The airline – 50 per cent-owned by the governments of Norway, Sweden and Denmark – warned losses incurred during the industrial action would be compounded this year by SKr400m of exceptional charges associated with the introduction of its new Boeing 737 fleet.

Jan Stenberg, chief executive, said operating income this year would be largely flat compared with 1997, in spite of sharply higher first-quarter profits.

In the first three months of this year, SAS reported pre-tax profits of SKr613m – compared with a loss last time of SKr269m – on operating revenue up from SKr8.35bn to SKr9.49bn.

Although the figures were flattered by a SKr297m gain on the sale of aircraft, Mr Stenberg said SAS had enjoyed strong yields among full fare passengers and a 15 per cent increase on intra-Scandinavian traffic.

"However, the first quarter traffic and yields trend and reduction in unit costs are better than expectations for the full year," he added. "It remains necessary to achieve a reduction in unit costs in 1998."

Analysts expect SAS to further reduce costs by farming out maintenance and repair of its new Boeing 737 fleet to Lufthansa, its German partner in the Star alliance. Such a move, however, could prompt strong opposition from some of SAS's 80 unions, which would fight cost-cutting measures involving large scale redundancies in the Nordic area.

In the first quarter, overall production and traffic volumes rose 5.6 per cent, while unit costs fell 5 per cent, adjusted for currency effects. That helped lift the gross profit margin from 2.1 per cent to 9 per cent.

Mr Stenberg said the airline had maintained its market share in spite of intensifying competition, particularly from low cost carriers, and overall capacity utilisation rose 1.4 percentage points to almost 60 per cent.

Profits in the airline division reached SKr598m, against a loss of SKr248m, while the international hotel arm showed a gain of SKr16m compared with a deficit of SKr17m.

The carrier, which recently decided not to proceed with an auction of its hotel activities, said it was seeing solid growth in hotel occupancy.

Of the group's separately quoted holding companies, SAS Sweden reported earnings per share of SKr2.78, SKr2.85 at SAS Norway and SKr2.51 at SAS Denmark.

Issue details hit SGS-Thomson shares

By Vincent Boland in London and Robert Graham in Paris

Shares in SGS-Thomson Microelectronics, the Franco-Italian semiconductor maker, fell 6 per cent on the Paris bourse yesterday after the company unveiled details of a $1.6bn global share offering due to start next week.

The shares closed FFr32 lower at FFr498 after SGS-Thomson said it would issue 3m new shares, which would raise FFr1.5bn ($252m) at yesterday's closing price. Meanwhile, its majority owners, which include the French groups CEA Industrie and France Telecom, will dispose of 16m shares, raising a further FFr8bn.

The group also plans a convertible zero-coupon bond which would require issuing another 4m shares and raise an additional $900m.

Although the transactions were not a surprise, analysts said investors were taking profits ahead of the issue of new shares after a sharp rise in recent days and amid growing concern about the impact of Asia's financial crisis on the semiconductor industry.

The offerings are being led by Lehman Brothers, Deutsche Morgan Grenfell and Morgan Stanley Dean Witter. An investor roadshow will begin next week, and the offer price will be fixed in the first week of June.

Bankers said the shares would be offered to investors in the US and Europe, raising the free float from 30 per cent now to about 47 per cent of SGS-Thomson's equity. In addition, the shares will be listed on the Milan stock exchange, complementing listings in New York and Paris.

The French and Italian governments have given the go-ahead for the offerings, which were originally planned for last autumn but were put on hold when SGS-Thomson's share price tumbled in the wake of the Asian financial crisis and slower demand for its products.

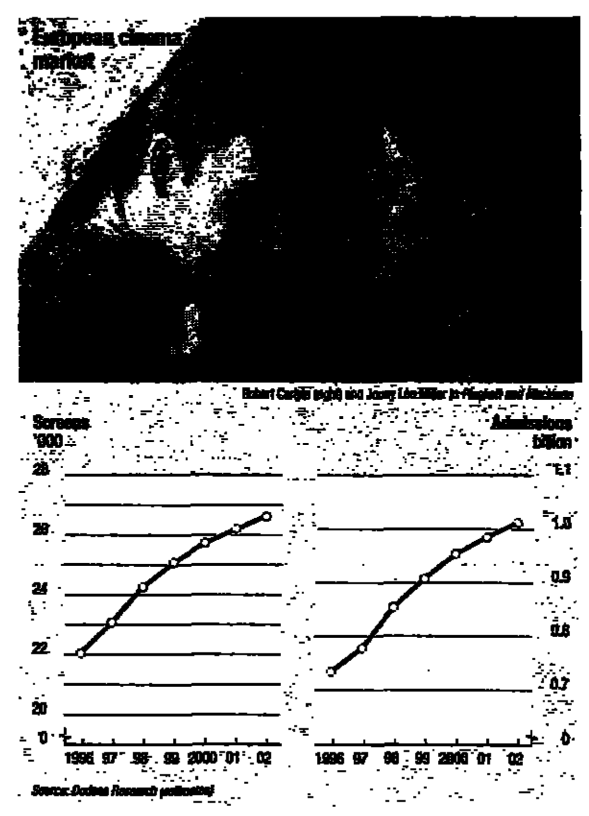
The company will use the proceeds of its 3m share issue to finance investment plans. On Monday, the group announced a $1bn investment plan in France and Italy, of which half was for a new-generation 300mm wafer facility at Crolles, near Grenoble in south-east France.

France and Italy hold equal 34.6 per cent shares in SGS-Thomson, but the French government in particular is anxious to prevent the public-sector stake falling below 51 per cent. After the new issue and the share sale, the respective holdings will remain equal.

France Telecom currently owns 16.9 per cent of SGS-Thomson; CEA Industrie controls 17.6 per cent; and IRI and Comitato CIR, the Italian state companies, hold the remaining shares.

PolyGram's uncertain future threatens Europe's rising star

The region's film industry would lose if control of the successful Dutch entertainment group passes to Seagram, writes Alice Rawsthorn



When Europe's film directors, producers and actors gather on the Boulevard de la Croisette today to toast the opening of the 1998 Cannes Film Festival, they will have plenty to celebrate.

The European film industry is enjoying a revival after decades of decline. Cinema admissions are rising across the region. The success of locally-made films - such as *The Full Monty*, *Trainspotting*, *The Fifth Element*, *Bean* and *The English Patient* – has encouraged Europe's media groups and the US movie studios to increase their investment in European production.

Yet the plight of PolyGram, the Dutch entertainment group that has been one of the chief catalysts for the industry's resurgence, casts a pall over the Cannes celebrations. PolyGram has spent $1.2bn since 1991 on establishing Europe's biggest film producer and distributor only to face the threat of its being gobbled up by Hollywood.

Philips, its Dutch parent company, is discussing the sale of its 75 per cent stake in PolyGram to Seagram, the Canadian group which owns Universal, one of the oldest Hollywood studios. If the deal goes through, PolyGram's film subsidiary may be folded into Universal, and the burgeoning European film business will lose its flagship.

PolyGram's progress in the film sector is only one of a number of factors to have contributed to the upturn in the European industry's fortunes, but it is undeniably an important one.

The chief catalyst for the revival has been the construction of new US-style multiplex cinemas throughout the region. Nearly 4,000 screens have opened in Europe since 1990, according to Dodona, the research consultancy, and at least 3,500 others should be completed by 2002.

Access to so many additional screens has made it easier for European-made films to secure distribution. Meanwhile, the new generation of commercially-minded European film makers, such as Luc Besson and Danny Boyle, directors of *The Fifth Element* and *Trainspotting* respectively, has produced a genre of European pictures with broad international appeal.

PolyGram has financed several recent European hits including 1994's *Four Weddings And A Funeral* and 1997's *Bean*, both of which grossed about $250m worldwide. These successes have encouraged it to back bigger budget films. Working Title, PolyGram's largest UK production subsidiary, is now preparing to release *Plunkett & Macleane*, a $15m highwaymen romp, as well as shooting a $40m follow-up to *Four Weddings* in London and finalising plans for a $75m *Thunderbirds* feature.

PolyGram's expensively created film division has yet to break even, although it is scheduled to move into profit next year. However, the sight of a Dutch company coming so close to establishing a credible competitor to the Hollywood studios has prompted other European entertainment groups to increase their investment in film.

Gaumont, the French cinema group that has traditionally backed a couple of low budget films a year, poured $90m into *The Fifth Element*, the most expensive European-financed film ever made. It took $264m worldwide, becoming 1997's fifth highest-grossing picture. The group is now preparing to back other ambitious English-language movies.

Pathé, its arch-rival, is stepping up its French production activities, and has backed one of the UK's National Lottery-subsidised film franchises. Canal Plus, the French pay-TV group that staged an ill-starred foray into Hollywood during the early 1990s, recently agreed to plough $100m into a US-based co-production joint venture with the Warner Bros studio. Similarly, Granada and Channel 4, the UK media groups, are committing more money to film production.

Hollywood is also investing heavily in European films, inspired by PolyGram's hits and US-financed successes, such as *The Full Monty*, produced by 20th Century Fox, and *The English Patient*, backed by Walt Disney's Miramax subsidiary.

Last autumn, Miramax committed $50m to HAL, a new UK-based production company run by the old Channel 4 Film management team. Sony Pictures has since unveiled plans to invest nearly $60m in German film and television productions. Fox and Universal have recently been courting European producers.

If Seagram pulls off the PolyGram deal, Universal will inherit a ready-made European film production and distribution business. The Canadian group's main motive is to gain control of PolyGram's record companies; but the European film industry's prime source of finance and its most vocal lobbyist to the European Commission and national governments would fit neatly into Universal.

PolyGram's attempt to become the first European company to vie successfully with Hollywood would be brought to an abrupt end, leaving Canal Plus, Pathé, Gaumont and their foes to pitch for the vacant post as Europe's most powerful film group in time for next year's Cannes festival.

SAB to focus on core beverage business

By Victor Mallet in Johannesburg

South African Breweries said yesterday it would concentrate on its core beverages business in Africa and overseas as it announced provisions of R1.1bn ($217m) against the disposal of other parts of the conglomerate.

The provisions include R600m for the completed sale of OK Bazaars, the downmarket South African retail chain, and R500m for other possible write-offs against non-core operations.

The shares fell 6 per cent, to R151, on a weak Johannesburg Stock Exchange, after the company announced a steep decline in fully diluted earnings per share, from 605.3 cents the year before to 352.5 cents in the year to March.

Pre-tax profit was up 9 per cent, from R3.42bn to R3.73bn, on turnover ahead 12 per cent to R32.40bn.

Net earnings from operations – before the provisions – rose 15 per cent to R2.31bn.

SAB lifted its dividend for the year by 15 per cent to 330 cents.

The group has already sold some of its diversified South African holdings and negotiations are under way on others, including Lion Match, Conshu Holdings, a footwear and clothing company, and Da Gama Textile.

"It is expected that the balance of the group's smaller non-core subsidiaries will be disposed of shortly," SAB said.

However, SAB would not be drawn on the future of larger non-beer subsidiaries such as Belron, the international autoglass business, or Edgars, the southern African clothing retailer.

Asked if in five years it was safe to assume that SAB would be a beverage company, possibly with gaming and hotel interests, Graham Mackay, group managing director, said: "I wouldn't say it was a safe assumption. It is a fair assumption."

SAB has been expanding quickly into new markets in Africa, China and eastern Europe in recent years, and Mr Mackay did not rule out the possibility of a big international acquisition.

● Heineken, the Dutch brewer, plans to discontinue its introduction of the Amstel pilsener and 1870 brands in the US market, choosing instead to concentrate on the low-calorie Amstel Light, according to Dutch press reports, reports AFX News in Amsterdam.

Heineken last year began its campaign to market the pilsener and 1870 beers alongside the light beer.

NEWS DIGEST

RETAILING

Ahold mulls expansion in UK, France and Germany

Ahold, the Dutch-based supermarkets chain, is considering moves into the UK, France and Germany as part of a rethink of its direction in Europe. The company, which ranks among the world's leading food retailers, derives most of its income from the US and is expanding into Latin America and Asia. However, apart from the Netherlands, where it is market leader, Ahold's European expansion has until now concentrated on southern and eastern countries.

Cees van der Hoeven, president, said yesterday: "We are revisiting our European strategy – asking whether it is not important for critical mass that we should have a presence in the bigger countries." He named the German, British and French markets as well as Italy, which has long been on Ahold's shopping list.

With concentration in the sector accelerating, especially in the US, "we will end up with six or eight global players", he said ahead of the group's annual meeting. Ahold had a wider geographical spread than most of its rivals, and saw economies of scale worldwide as well as on a national and regional basis. Mr van der Hoeven had previously ruled out the UK as a market fought over by a small number of strong companies. Ahold officials are impressed, however, by the success of Tesco in winning market share from Sainsbury.

In the first 16 weeks of the current year, sales from Ahold's operations in Portugal, Spain, the Czech Republic and Poland rose 18.1 per cent. But at Fl 820m ($410m), they brought in less than its Brazil operation. Worldwide sales, excluding value added tax, were 14.6 per cent ahead at Fl 16.1bn. **Gordon Cramb, Amsterdam**

PAY-TV

German groups revise proposals

The European Commission's competition authorities may yet clear a proposed German digital pay-TV venture between Kirch Group and CLT-Ufa, the media groups, following last-minute concessions by the companies. An unnamed Commission spokesman was last night quoted by the official German press agency as saying that the concessions, made in a meeting between Karel Van Miert, competition commissioner, and directors from the two companies, went "in the right direction".

CLT-Ufa, in which the media group Bertelsmann has a 40 per cent stake, confirmed the companies had presented the Commission with revised proposals but refused to give details. The concessions are believed to be unrelated to the technical aspects of the deal. In previous negotiations with the Commission, Kirch and CLT-Ufa offered to surrender some of the pay-TV broadcast rights to popular Hollywood films to third parties. The Commission is due to rule on the case by June 3. **Frederick Studemann, Berlin**

IMI-SAN PAOLO

Bank plans property spin-off

IMI-San Paolo, the new banking group formed by the merger of the Rome-based IMI and the Turin-based San Paolo, plans to spin off its property assets, worth about L2,700bn ($1.5bn), at the end of October or early November. Luigi Maranzana, joint chief executive of the combined banking group, Italy's largest, said in Milan yesterday the spin-off was not a window dressing operation but reflected the fact that "bankers are not property experts". It was better to entrust the running of these activities to professional property managers. The bank plans to float the new property company on the stock market, while retaining a 20 per cent stake in the venture.

The move is the latest in a growing trend by large Italian groups to spin off their property assets. **Paul Betts, Milan**

GAS DISTRIBUTION

'Barriers' thwart Ruhrgas

Ruhrgas, Germany's biggest gas distribution company, said yesterday its European ambitions were being thwarted by national restrictions. "Our aim is to make Ruhrgas a European gas company on the market side," Friedrich Späth, managing board chairman, said yesterday. However, he predicted difficulties in spite of a new directive to open 40 per cent of the European Union gas market in stages over the next 10 years. "Most countries have barriers and are disinclined to welcome new suppliers", he said. Mr Späth said the group's gas sales abroad could double in the next 10 years, after increasing 7 per cent last year to 24bn kilowatt hours. But last year's foreign deliveries – to Switzerland, the Czech republic, Hungary, Austria and Liechtenstein – were mainly outside the EU. So far this year, the group has signed agreements to deliver gas to Luxembourg and Romania, as well as to France through its UK subsidiary.

Foreign sales accounted for 11 per cent of Ruhrgas's 1997 group turnover of DM16.13bn ($9.08bn), up from DM15.2bn in 1996. Net income increased from DM698m in 1996 to DM714m last year. Ruhrgas is owned by several German industrial groups, including Mannesmann, Krupp and Veba, and the subsidiaries of international oil companies such as BP, Shell and Exxon through a network of holding companies. **Peter Norman, Essen**

LIFE ASSURANCE

Swiss group trebles income

Swiss Life/Rentenanstalt, the recently demutualised Swiss life assurer, more than trebled its net income in 1997 to SFr152.5m ($103m). The 20 per cent growth in the company's gross premiums to SFr16.7bn was in line with earlier forecasts, but the rise in net income was well ahead of the SFr105m forecast.

The company will give more details when it releases its full figures today. It plans to pay a SFr4 a share dividend. UBS, Switzerland's biggest bank, owns 25 per cent of Swiss Life/Rentenanstalt. There have been rumours that it might follow the example of Credit Suisse, which last year bought Winterthur, and take full control of Switzerland's biggest life insurance company. **William Hall, Zurich**

Warring Andersen sisters keep mum ahead of Paris court case

By Jim Kelly, Accountancy Correspondent

One minute the sister firms of Arthur Andersen and Andersen Consulting are tearing each other apart in a public row destined to end in divorce. Next, silence envelopes them both. So what is going on behind the scenes in the case of Andersen versus Andersen?

All that both parties will say is that they have taken their dispute to the sumptuous surroundings of the Paris-based International Court of Arbitration, run by the International Chambers of Commerce. The appointment of an arbitrator is understood to be imminent.

Since March, when a New York federal judge in effect pointed the warring parties to the ICC, the two sides have followed the lead of the court itself in refusing to comment, even privately. So will we have to wait years to find out what happens next?

Probably not. Statistics issued by the ICC this week show that in many cases the parties to arbitration settle out of court – most often at the very begining or the very end of the official arbitration process.

In 1997 the court set in motion 376 cases but 196 cases were withdrawn - and of those, 120 were taken out of court in the very early stages. If the parties in Andersen v Andersen follow this pattern, a settlement could be close.

Both sides must want to end the damaging row which has tarnished their image. The two firms, separate businesses in almost all respects, are joined through their umbrella organisation Andersen Worldwide.

Their argument is about competition in the consulting sector and control and equity in the organisation.

Arthur Andersen, the accountancy firm, is accused of trespassing on Andersen Consulting's patch.

Meanwhile, Andersen Consulting objects to continued cross-payments it has to make to Arthur Andersen – which has a majority on the board of Andersen Worldwide.

Leaving the dispute in limbo must be damaging both businesses.

In spite of claims that only a handful of partners are concerned, it is undoubtedly a distraction at a time of rapid growth and change in their sectors. Arthur Andersen, for example, faces the problem of whether to expand its own consulting arm to anticipate a divorce.

Lawyers familiar with the court say a settlement often comes when the two teams finally meet in Paris and begin to argue over the case's terms of reference. Legal costs alone for big cases are estimated at $10m for each party. But the ICC is understood to view the Andersen case as one of the most complicated it has ever had to face, and the costs could be far higher.

The arbitration process could take years. Six months is supposed to be the timetable, but lawyers say that is often not met and that two years is more likely; other cases have lasted more than a decade.

Despite advice from lawyers, many parties to the court do wait until the last moment to settle. "It's fear," says one lawyer who knows the court well. "If you let it go to the court's verdict, then you have lost control. So the sides often settle right at the last moment."

But it is more likely the teams will select a third party outside the court process to try to hammer out a settlement sooner rather than later.

Of the likely outcomes, anything short of a complete divorce seems difficult to contemplate. Enough bad blood has been shed to make an accommodation difficult with existing personalities.

It is more likely that the court will decide on divorce – but at a price. The question then is who pays. Arthur Andersen's best outcome would probably be to get the court to agree that Andersen Consulting has in effect broken partnership agreements and must pay for the damage. Andersen Consulting's best outcome would probably be to claw back the income payments it has already made and ask the court to dissolve its links with the rest of the organisation.

Between lies a gulf which both sides must be anxious to fill.

Over the past year, with revenues rising at more than 20 per cent in some areas, both have been able to play a waiting game.

But it seems unlikely they will leave their fate in the hands of others for much longer.

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We already have the edge. Now on the way to the No. 1 position in Europe.

The company.

Mannesmann operates in Telecommunications, Engineering, Automotive and Tubes & Trading. All sectors are consistently managed with a value-driven approach. Our yardstick for measuring value creation, the return on gross operating assets, reached 10.3 per cent in 1997. We have committed ourselves to reach the 15 per cent mark in the year 2000. Our medium-term objective is to reach a 20 per cent return.

Telecommunications – growing across borders.

Thanks to D2, Arcor and our participations – Omnitel and Infostrada in Italy, and Cegetel in France – we're well on our way to becoming the leading private telecom provider in Europe. In digital mobile telecommunications, D2 is already market leader in Germany. Today, the Telecommunications segment generates the Group's biggest earnings contribution.

Your advantages.

With Arcor and D2 we aim to offer all the advantages of an integrated communications company and are already realizing marketing and cost synergies for the benefit of our customers. Arcor runs a high-performance, full coverage wireline network, reaching the heart of every city in Germany. Building on the strength of D2, Mannesmann has consistently exploited the opportunities of today's Information Age. Our aim? To further sharpen our European edge.

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With Mannesmann Demag, Mannesmann Dematic, Mannesmann Rexroth and Krauss-Maffei, we rank among the world's leading suppliers in mechanical engineering. Mannesmann Engineering is No.1 in hydraulics, material handling and plastics machinery. We aim to optimize our product portfolio to enhance profitability and secure future growth.

Automotive – making cars more intelligent.

VDO and Sachs are innovative partners to the automotive industry. Sachs ranks among the leading global suppliers of chassis and powertrain components and systems. VDO is internationally recognized as an expert in the fields of integrated electronic information and control systems. Through its acquisition of Philips Car Systems, VDO with its new Car Communication division is poised to become one of the world's premier providers of integrated information, navigation and traffic telematics systems. Seizing every opportunity to boost current value, we aim to forge ahead with the internationalization of our Automotive sector and to strengthen our systems expertise.

Mannesmann's strengths.

- Strong commitment to value-driven management.
- Telecommunications:
  - German market leader in digital mobile telecommunications.
  - Leading private integrated provider in European telecommunications.
- Automotive and Engineering: Outstanding global position.

Tubes & Trading – effective partnership strategy.

The Tubes & Trading sector produces and markets steel tubes for every application. In order to bolster our market position and improve our cost base, we have been incorporating all major product areas into cooperative alliances since the early nineties. The latest and most significant step in this direction is our joint venture with the French group Vallourec for seamless tubes.

Mannesmann – working for your future.

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SOUTH KOREA FEAR OF NEW WAVE OF BANKRUPTCIES AS COUNTRY'S COMMERCIAL BANKS THREATEN TO CUT LENDING TO 'NON-VIABLE' CONGLOMERATES

Seoul bourse tumbles after banks warn on lending

By John Burton in Seoul

A threat by South Korean commercial banks to cut lending to 11 "non-viable" conglomerates, or *chaebol*, caused the Seoul bourse to plunge to a near 11-year low yesterday because of fears of another wave of corporate bankruptcies.

The decision by the banks reflected a new "get-tough" policy by the government to accelerate *chaebol* restructuring after leading industrial groups last week announced plans to reduce large debts by selling $30bn in assets.

Ssangyong, South Korea's sixth largest conglomerate, yesterday said it planned to sell $1bn in assets, including stakes in its leading businesses, to foreign investors.

A senior presidential aide said the government planned to use the banks to impose financial discipline on the *chaebol*. Kim Dae-jung, Korean president, recently promised new bank and corporate reforms by the end of the month. Analysts have criticised the slow pace of corporate reform in the wake of the nation's financial crisis last winter, triggered by excessive borrowing by the *chaebol*.

The banks, worried about the depletion of their capital if more *chaebol* go bust, have propped up 11 nearly bankrupt industrial groups with emergency loans since October. They include the Dong-ah construction, Haitai food, and Kohap textile groups.

The Seoul stock market, which closed at 351.86 points after dipping to an 11-year low, was affected by reports that Dong-ah's engineering unit and Kyonghyang Construction had been declared bankrupt, and that the Keopyung group had narrowly escaped insolvency.

Under state pressure, the banks said they would assess the chances of survival of at least 60 large troubled companies with bank loans of more than Won250bn ($180m) by the end of May.

Officials said the emergency loans were depriving funds to healthier companies as the banks concentrated on saving distressed groups.

They suggested the government's willingness to allow some medium-sized *chaebol* to collapse would put added pressure on the leading groups to implement promised restructuring, although doubts remain whether foreign investors will be prepared to buy up to $30bn in assets.

Companies that are determined to survive despite high debts will be subject to restructuring plans drawn up by the banks by July.

The banks also promised to give more financial support to small businesses that have had trouble raising capital as the large *chaebol* dominate bank borrowings.

The restructuring announced yesterday at Ssangyong includes Ssangyong Cement – the group's main company – selling a stake of up to 28 per cent in Ssangyong Oil Refining to foreign investors. The cement company will also sell some of its operations.

The group will reduce its stake in troubled Ssangyong Securities to below 3 per cent and spin it off. Other assets to be sold include the Yongpyong ski resort, a golf course and a cement plant.

Ssangyong said it would concentrate on two or three core businesses as it sought to pay back debts of Won6,530bn by 2002 and reduce its net debt-equity ratio to 159 per cent.

Ssangyong, threatened with bankruptcy last December because of debts of Won3,400bn at its car subsidiary, Ssangyong Motor, was saved from collapse when Daewoo agreed to take over the car company and assume half of its debts.

MLC, National Mutual hit by failed merger

By Gwen Robinson in Sydney

The abrupt cancellation of the planned A$5bn (US$3.17bn) merger between National Mutual and MLC, two of Australia's leading insurance and financial services groups, yesterday shook investors and redrew the competition lines in the country's insurance and financial services sector.

Shares in National Mutual, which is 51 per cent-owned by French insurer Axa-UAP, fell 7 per cent to A$3.60, while those of Lend Lease, MLC's parent, fell 4 per cent to A$35.35.

The companies cited unresolved issues regarding the terms of exit from the merger should either side be unhappy, and the degree of autonomy to be accorded the merged entity's management.

The merger proposal, which was widely approved by analysts and shareholders when it was announced in January, would have created one of the region's largest financial services groups with assets under management of about A$51bn.

The failure of the deal has left AMP, Australia's largest insurer, the clear leader in the sector with about A$150bn funds under management just before its June listing on the Australian and New Zealand stock exchanges.

The National Mutual-MLC merger was set to challenge AMP with strong growth prospects. The two groups had estimated cost savings of at least A$200m a year for three years with recurrent savings of nearly $1bn from their combined operations.

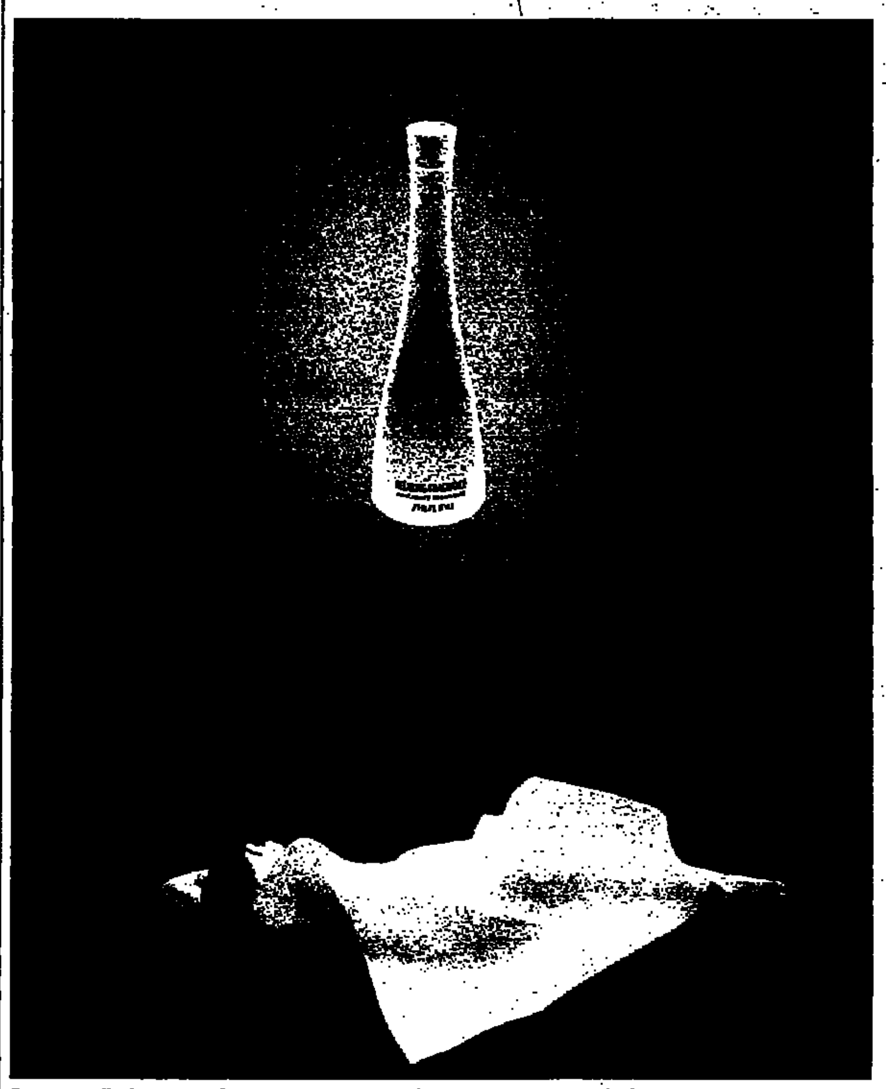
Analysts said the core of the problem was differences over the respective roles of Lend Lease and National Mutual and their relationship to the merged entity.

Under the agreement announced in January, National Mutual would have owned 51 per cent of the merged entity. Voting rights, however, were to be shared for three years, after which National Mutual would gain full voting control.

Geoff Tomlinson, National Mutual managing director, said he was "very disappointed" with the failure of the plan, but did not envisage any negative impact on the company's earnings in the short term.

David Higgins, Lend Lease managing director, said MLC would reactivate its search for acquisitions.

Shiseido upbeat despite pre-tax fall



Sweet smell of success: Shiseido shares rose 3% yesterday on news of a buy-back

By Bethan Hutton in Tokyo

Shiseido, the Japanese cosmetics company, still sees potential for growth in domestic and overseas markets this year, in spite of difficult economic conditions and lower profits in the year just ended.

It projects a 5.5 per cent increase in sales for the current year and 18.5 per cent growth in pre-tax profit, but net profit is seen steady, with a 0.8 per cent increase.

The company said it would pursue a growth strategy, and carry on with management restructuring and cost-cutting in some divisions.

For the year ending March 31, consolidated sales rose 5.5 per cent to a record Y620bn ($4.7bn), but pre-tax profits fell 6.3 per cent and net profits were 11.9 per cent lower at Y16.9bn.

Earnings per share fell 15.6 per cent to Y40.15, but the dividend was raised Y0.75 to Y13.25, with a further Y0.75 increase planned for the current year.

Return on equity fell from 5.1 per cent to 4.2 per cent, but Shiseido said its goal was to achieve at least 7 per cent within three years.

Most of the increase in sales came from overseas markets, with sales in Japan flat.

After adjustment for the incorporation of a Taiwanese joint venture as a subsidiary this year, Asian sales increased 3 per cent, while North American sales were up 64.1 per cent, and Europe rose 15.1 per cent.

The company is maintaining its target of achieving a 25 per cent ratio of overseas sales by 2001, but said this was not because of difficulties in the home market.

Shiseido, which expanded aggressively in several Asian markets last year, said that regional crises had had a limited effect on results, as Asia accounted for just 25 per cent of overseas sales.

The company's main markets in Asia are Taiwan and mainland China, which have been less affected by the regional problems. Shiseido said it still saw the Asian markets as having strong long-term prospects.

The announcement of a plan, which is subject to shareholder approval, to buy back up to 9.9 per cent, or 42m, of its shares lifted their price 3.1 per cent to Y1,799 on the Tokyo stock exchange.

Akira Genma, president, said that the share buy-back programme was a medium to long-term plan, and the number of shares involved would depend on conditions, including future cash flow.

Shiseido is holding extra cash after dissolving SFC, a loss-making finance subsidiary. This resulted in an extraordinary loss of Y17.8bn, but also released capital to be directed elsewhere.

Japanese loans group up 11.5%

By Gillian Tett in Tokyo

Promise, one of Japan's largest consumer finance companies, reflected the continued rise in demand for consumer loans in Japan with an 11.5 per cent rise in net profits last year to Y38.7bn ($29m).

Revenues advanced from Y198.9bn to Y220.3bn in 1997.

Bad loans remained relatively limited. The bad-debt ratio stood at 2.5 per cent of all lending, slightly up from 2.2 per cent the previous year, Promise said.

The results provide a sharp contrast to most other areas of Japan's financial sector, such as banking, where companies are struggling under a huge weight of bad loans and falling revenues.

Shares in Promise have risen sharply over the past year. After touching Y4,500 in May 1997, the shares rose to a peak of Y7,850 in January and yesterday closed at Y6,680 before the results were announced.

Some observers believe that the recent rapid expansion of the consumer finance sector may now be slowing. Promise yesterday admitted that its loan growth had recently eased: in 1997 loans rose only 10.6 per cent, compared with 15 per cent the previous year.

Paul Heaton, of Deutsche Morgan Grenfell, said: "Groups like Promise have been innovative and growing fast, but there may be storm clouds on the horizon now."

Since the 1980s, companies such as Promise have carved out a niche in the consumer finance sector by offering a service which is more flexible than that of many banks.

During the past year, for example, Promise has opened 300 unmanned branches which can provide loans to consumers at short notice.

It plans to open another 200 over the next three years, and the group is also considering expanding its operations in Taiwan and Hong Kong.

To fund this, the group yesterday said it would issue 10m new shares over the next year, or some Y70bn worth.

This will raise the company's total issue to 118.6m shares.

Creditors in legal move to rescue Alphatec

By Ted Bardacke in Bangkok

Creditors of Alphatec Electronics, the troubled Thai semiconductor company, yesterday filed a court petition to rehabilitate the company under Thailand's newly enacted bankruptcy law.

The petition is the first big corporate rehabilitation sought under the new bankruptcy act, which came into effect last month. The move by creditors, who also control Alphatec's board of directors, is an attempt to push aside Charn Uswachoke, Alphatec's founder and leading shareholder, and involves nearly $450m in overdue debt.

Earlier this year, Mr Charn foiled a creditor-sponsored rehabilitation plan for Alphatec by refusing to name formally Price Waterhouse as the company's auditors. Last year Price Waterhouse detected "improper transactions", worth at least Bt10bn ($259m), orchestrated by Mr Charn.

The creditors' petition proposes that Price Waterhouse act as the administrator of the rehabilitation plan. Separately, the creditor steering committee appointed Indosuez W.I. Carr Securities to advise it on the restructuring.

Bankers say any viable rescue of Alphatec involves ousting Mr Charn from any say in the company's future, a substantial debt-for-equity swap by leading creditors and an injection of capital by a new investor, preferably an electronics or computer company.

"The company has managed to survive since August 1997 thanks to the considerable efforts of employees, management and suppliers, as well as the loyalty and patience of its customers. But both time and patience are running out," Alphatec said. "Both the company and the petitioning banks wish to see a speedy process through the courts."

Thailand's new bankruptcy law will be tested in the Alphatec case. There is no specialised bankruptcy court or judges with significant financial experience. Mr Charn – according to late amendments to the law he helped to insert through his position as a Senator – can object to the administrator proposed by creditors, and if the rehabilitation plan fails, creditors must wait at least five years before they can foreclose.

Modern markets demand modern tools

Krishna Guha reports on how India's NSE won the battle for a derivatives contract

India's financial regulator has given the go-ahead for the launch of the country's first equity derivatives contract, which will start trading in about three months.

The Securities and Exchange Board said it had approached the finance ministry to secure the necessary amendments to ensure that the contracts are enforceable under Indian law.

The announcement, greeted with jubilation at the National Stock Exchange, means the NSE has won a battle within the financial establishment.

M. G. Damani, former chairman of the Bombay Stock Exchange, fought the proposal, arguing that India was not ready for derivatives.

His views are shared by many small stockbroking firms that fear they will not be able to compete in a derivatives market.

India's regulators were won over by the argument that a country's investors and businesses need modern financial tools to manage risk. "The demand [for derivatives] is there already," says Balaji Srinivarsan, assistant director at Jardine Fleming and a member of the Gupta committee that drew up the derivative plans.

The Securities and Exchange Board has now accepted the proposal to proceed in stages, starting with an equity futures contract based on the NSE 50 Index of leading shares, followed later by index options and options on individual shares.

The first step, equity index futures, will mainly benefit portfolio investors. Fund managers will be able to use the NSE 50 contract as an off-the-shelf hedge.

The next stage, equity options, will enable fund managers to offer index tracker funds and low-risk products, which could give India's flagging mutual fund industry a new lease of life.

P. J. Nayak, executive trustee of Unit Trust of India, the country's biggest fund manager, says derivatives will only be useful if the contracts are liquid, well priced and supported by solid clearing systems. This "requires a leap of time and faith to when the market is well established", he says.

Analysts say that India has chosen the right contracts to begin with, but question whether the underlying market is strong enough to support the derivatives superstructure.

For a derivative contract to succeed it needs a deep, liquid and transparent underlying market which offers ample opportunities for arbitrage between the futures and the stocks.

There is concern about how much liquidity there really is in India's markets – much turnover results from speculators moving positions from one exchange to another.

Also, trading costs remain high and there is a lack of transparency. "We still have a very considerable amount of market manipulation in India," says Mr Gupta. However, he adds that the NSE 50 Index future would be much harder to rig than individual stock options.

Mr Gupta suggests India could use derivatives as a lever to accelerate its evolution. "Introducing derivatives will help make discipline in the cash market better," he says.

The risks are high. But there are also costs of not proceeding as planned. Indian companies already seek over-the-counter derivative contracts offshore through subsidiaries, and there is a risk that an offshore exchange could take advantage of inaction to launch its own futures contract on the Indian market. "If we wait five years," says Mr Srinivarsan, "they will go somewhere else."

DEUTSCHE BANK RONALDO SCHMITZ, MANAGEMENT BOARD MEMBER, ADMITS MISSED OPPORTUNITIES BUT RULES OUT BIG JOB CUTS IN NORTH AMERICA

New role for US as Europe moves to centre stage

By Clay Harris, Tracy Corrigan and William Lewis

Deutsche Bank made mistakes and missed opportunities in the US. and now sees North America in a new light, admits the man who oversaw its rapid expansion in the region in recent years.

Ronaldo Schmitz, the *Vorstand*, or management board, member responsible for North America, is candid about what went wrong. "We have not done the best possible job in managing change," he admits. "You should not have too many construction sites at the same time, and we certainly had too many."

Deutsche built its US business through aggressive staff hiring – rather than buying local operations – just as it was attempting to strengthen the position of its London-based investment bank.

"With hindsight, the early 1990s would have been a wonderful time to do acquisitions [in the US]. Should one have made an acquisition? The answer probably can only be yes," says Mr Schmitz.

That Germany's most powerful bank feels it necessary to explain itself shows how seriously it is taking the crisis of confidence in its US operations, where the worldwide restructuring of investment and commercial banking activities has been accompanied by several senior departures and a storm of unfavourable publicity.

In 1995, Deutsche Morgan Grenfell, its investment banking arm, began an intensive build-up of its US operation, which involved hiring up to 1,000 staff annually for several years. The US management hoped to be earning revenues of $1.5bn to $2bn by 2000. But this year, Deutsche Bank changed tack, announcing a shift in focus back to Europe as part of a global restructuring involving 9,000 job cuts.

One person familiar with the bank described the move as "a staged retreat where they will try to consolidate whatever gains they've made, if it involves minimal cost".

The result has been a crisis in staff morale and the departure of several senior executives, including Carter McClelland, who ran DMG's US business and was for a time London-based co-head of investment banking.

Mr Schmitz, like all but two members of the *Vorstand*, a German, admits there is a "trough of confidence" among staff at Deutsche's US operations, but joins other senior executives in ruling out large job cuts. "We certainly do not contemplate going down from 4,500 people to 2,000 or 3,000."

Deutsche, he maintains, is still studying selective acquisitions in the US. "All of us on the board agree that we should look at North America from a growth perspective and not from one of consolidation or retrenchment."

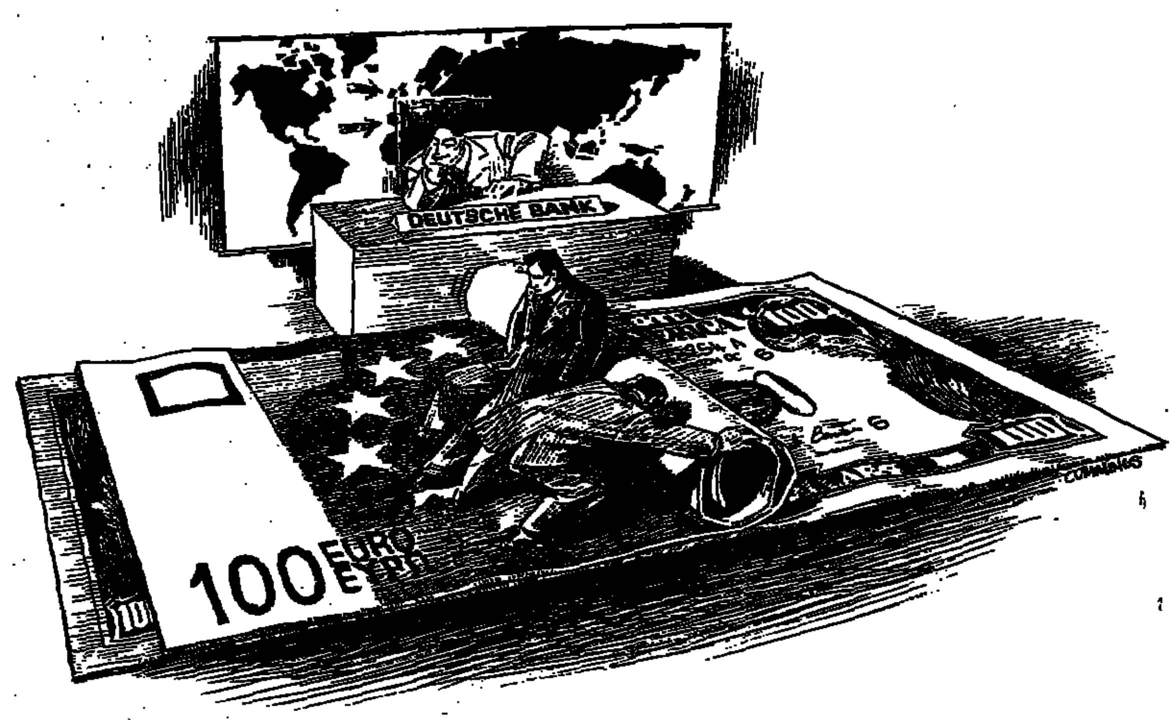
But he attributes an acknowledged "change of focus" to a "better understanding in the light of market changes", apparently referring to the quickening pace of consolidation in US financial services, as well as to the opportunities that economic and monetary union will create in Europe.

DMG's experience has highlighted the difficulties faced by European banks in trying to establish a US presence – all the more so because the bank was widely seen as the most aggressive foreign entrant. "They had made many people believers by sticking to it for as long as they did," says one Wall Street headhunter.

Mr McClelland, who left this year, believes that "at this point in the cycle it has become incredibly more difficult to build a business from scratch than it was three years ago".

Still, Mr Schmitz argues that Deutsche's experience in North America has been better than that of any European rival.

When he took over in 1990, Deutsche in North America had assets of about $3.5bn, revenues of about $200m and employed 300-350 people.



"Today we have 4,500 people, assets of $80bn and revenues of $1.2bn-$1.3bn. We have never lost money in North America, which is quite an achievement compared to our foreign competitors."

This is based, however, on figures for the whole of Deutsche's US business, which includes Deutsche Financial Services, a commercial finance company.

This points to the merits of making the right acquisition, since that activity is built in part on what Mr Schmitz describes as a "wonderful business", ITT Commercial Finance, which Deutsche bought at the end of 1994.

Mr Schmitz joined Deutsche in 1990 from the German chemicals group BASF, where he was finance director. "When I first started [at Deutsche] in the early 90s, people watching us got the feeling that the number one priority for this bank was North America, and that was absolutely wrong."

But observers had good reason to reach that conclusion. Mr Schmitz says: "In the years from 1990 to 1994, we talked probably eight times about North America before we talked one time about Europe. At that stage, we were probably devoting more executive time to North America than we were to Europe. This certainly has changed."

Deutsche's new mantra of "Europe first" has been interpreted in the US as merely a smokescreen for retrenchment in North America. The remark that really stung Deutsche was the observation from a New York-based executive: "The game is over for this German bank to be a global player. They are going home to Germany to defend their home patch."

Deutsche's new mantra of 'Europe first' has been interpreted in the US as merely a smokescreen for retrenchment in North America

Insiders say the bank was shaken by the loss of several key German mandates to US investment banks, as well as by rising costs in the US.

At best, the new strategy reveals that even one of Europe's largest financial institutions – and the biggest bank within the euro zone – was slow to realise the impact of European monetary union.

"The emergence of a monetarily unified Europe has created new perspectives in this bank that have to be addressed and we are addressing," Mr Schmitz says. "It took us quite some time to understand what the euro would mean."

Deutsche also belatedly concluded that its European strength was an important selling point to US-based global customers and is focusing on what Mr Schmitz calls "US-out" business.

"In the light of recent European developments, as we now go on building our investment banking platform in North America, we will do it with a view towards enhancing capability that we have elsewhere in the world. In that sense, there certainly has been a change of focus," he says.

In fact, this is a big climbdown in ambition for a bank seeking to compete for domestic business with the top US investment banks in some areas. Some insiders worry privately that its more Eurocentric stance will lose the bank business from US clients.

But Mr Schmitz is satisfied with much of what has been achieved. "We have a platform that allows us to originate domestic issuance business in fixed income. We are one of the important government paper traders. That is a platform which is perfectly sufficient for our needs, so we don't need to continue to invest in it. Equities, I would say, is almost there today."

Edson Mitchell, head of global markets, says: "In order to be successful [in global markets], we don't have to be number three in the US, but in the products that really matter globally we have to be credible in the US."

Looking back to the early 1990s, Mr Schmitz argues that "very few, if any, realised how attractive a time that was for purchasing businesses in the US, especially in the finance industry".

However, he says: "I have always been a very strong advocate of organic growth. I felt and my colleagues felt that the bank had the strength, and still has the strength, to continue to chart its own course."

In the end, the bank became concerned about the rise in costs, though people close to DMG say the US business never exceeded budget and revenues grew faster than costs until the fourth quarter of 1997.

One problem seems to have been a lack of clear, articulated plan with full board backing. This inevitably raises questions about the German system of corporate governance, which places heavy emphasis on collective responsibility, encouraging decision by consensus. *Vorstand* members were not unanimous on the decision to "build, not buy" in North America, and without a strong leader, differences of opinion proved divisive.

The legal requirement for collective responsibility "is something that we cannot change", Mr Schmitz says. "We should not make the mistake of having an organisation that does not respond to it." He admits, however, that "when you take the first look at an organisation like this one, it's not easy to clearly understand who is responsible for what".

But, even before the management changes announced yesterday, Deutsche had evolved. "I think we have clarity to an extent that we never had before," he says. "When I joined this bank, the *Vorstand* was 80 to 90 per cent deeply immersed in day-to-day business. That has changed now. It is less involved and leaves it to the members of the divisional boards to run it on a daily basis."

The culture clash between commercial and investment bankers – which the planned creation of a universal bank is designed to end – also contributed to the problems. For example, tensions over bonuses deepened the dark moods in New York.

Mr Schmitz admits: "The way that we have managed that is certainly not the best in the world. Until 1993, many in our bank did not know how to spell 'bonus'. Not to take it too lightly, we certainly took a crash course in bonus philosophy. We are getting better, but we are not there yet."

The bank is looking for a bonus system that will provide a "glue" for the organisation, "making it more sophisticated, more geared to business needs, not product-linked only, recognising effort by an individual to cross-leverage".

Considering the crisis in morale in North America, he says: "If you look at where nervousness was on the Richter scale, there were some places where it was close to zero and others where it was close to 10. If you were closer to 10, the closer you were to the investment bankers proper."

Local executives perhaps could have handled communications better, he suggests. "I had been talking almost on a daily basis with some of our managers and those people didn't let [information] percolate down."

In spite of the climb-down in the bank's US strategy, he has not come away from nearly a decade of watching over the US operation without being infected by a Yankee optimism.

"Looking forward, our options in America are really fascinating. I think it is an advantage for us that there is not one neat and clear path, but plenty of opportunities."

Sooner or later, though, Deutsche will have to pick one path and stick to it.

MEDIA COMPETITIVE PRESSURES TAKE THEIR TOLL

ABC puts TV news agency up for sale

By John Gapper, Media Editor

ABC News, a subsidiary of Walt Disney, is close to selling Worldwide Television News, one of the three main global television news agencies, after deciding to withdraw from an increasingly competitive market.

Associated Press, the news agency owned by a group of leading US newspapers, is seen as the leading contender to buy WTN. ABC News is thought to have been seeking at least $50m for the unit.

WTN, which has offices in 102 countries and supplies news footage around the world to national broadcasting companies, has been under competitive pressure since the launch of AP's own television news agency in 1994.

The two leading agencies for some years have been Reuters Television News and WTN, but AP has aggressively undercut prices charged by Reuters in particular.

The competition has pushed at least two of the agencies into operating losses.

ABC News said yesterday that it could not comment on whether WTN was up for sale, but people in the industry said it had offered WTN for sale this spring. Reuters and Agence France-Presse are also thought to have considered bidding.

ABC, one of the original three US television networks, holds 80 per cent of WTN.

Independent Television News, the UK television news group, has a 10 per cent stake, and the remaining 10 per cent is held by Channel Nine in Australia.

If AP buys WTN, there are likely to be substantial job losses because of the overlap between the two services. An acquisition could also allow AP, which industry observers believe has been losing about $30m a year, to raise prices.

Reuters Television has also been lossmaking in recent years, although it is expected to break even next year.

Margins in the industry suffered after the entry of AP because some broadcasters switched from its more expensive rivals.

Analysts have questioned whether Reuters would remain in the business, but the company has insisted it is committed to having a global network to gather news footage. This can be distributed via its terminals as well as on television networks.

Most national television news organisations subscribe to at least two, and often all three, of the large global news agencies. The agencies supply footage of international news events that they can edit for their domestic services.

Ticketmaster plans Europe-wide chain

By Alice Rawsthorn

Ticketmaster, the biggest ticket booking agency in North America, is planning to embark on a European acquisition spree to establish a network of agencies selling tickets for rock concerts and sporting events across the continent.

Tim Wood, executive vice president of Ticketmaster (Europe), said the Los Angeles-based group was currently "looking for investment opportunities" in Germany, Italy, Poland and Spain.

"Right now those countries are our hottest prospects," he said. "We feel our position in the US is so strong that there isn't a lot left for us to do, and we're looking for acquisitions and partnerships all over Europe."

Ticketmaster is already the world's biggest ticketing company because of its dominance of the vast US market, where it sells about $2.7bn-worth of tickets a year.

Its powerful position in the US has attracted criticism, notably from Pearl Jam, the US rock group, which three years ago staged an unsuccessful attempt to organise a North American tour independently of Ticketmaster.

Until recently, Ticketmaster has adopted a fairly cautious approach to expanding outside North America. It has long had a presence in the UK, and recently diversified into Australia.

The company has stepped up its investment – both in its international interests and in establishing a booking system over the internet – since last spring when USA Networks, controlled by Barry Diller, the US media mogul, bought 49 per cent of its equity for $210m in shares.

Mr Diller has since been locked in a boardroom battle at Ticketmaster, but reached agreement in March to take control of the company by buying the remaining 51 per cent of its equity for $400m in shares.

Earlier this year, Ticketmaster invested in France by acquiring 66 per cent of MC France-Ticket, a Paris-based company that sells 500,000 tickets a year, from Canal Plus, the French media group.

Ticketmaster is strengthening its European presence at a buoyant time in the events market. The popularity of blockbuster tours has regenerated the rock concert business; and sports clubs are increasingly sub-contracting their ticket-selling operations to large, computerised companies.

The US group also stands to benefit commercially from the rapid growth in bookings via the internet, which should enable it to cut costs over the long term by switching sales to a wholly electronic service.

Pearl Jam: US rock group failed in attempt to organise a North American tour without Ticketmaster PA

NEWS DIGEST

RETAILING

Wal-Mart shares surge as earnings beat forecasts

Wal-Mart, the world's largest retailer, gained strongly in early Wall Street trading yesterday after it announced record earnings which were comfortably ahead of the consensus of analysts' expectations. Profits for the quarter which ended in April were $828m, up about 26 per cent from the $652m recorded in the equivalent quarter of 1997, on turnover ahead 17 per cent at $29.8bn.

More than a quarter of the increase was generated outside the US, where Wal-Mart's sales doubled over the year, from $1.31bn to $2.6bn. It had opened new stores in Argentina, Brazil, Mexico and Canada during the period. It also has operations in Germany, and a joint venture in China. Wal-Mart was further buoyed by the strong domestic economy. This enabled it to widen its profit margins from 4.1 to 4.6 per cent, the first time it has significantly increased its margins in a decade.

Earnings per share, at 37 cents, were comfortably ahead of the consensus First Call estimate of 34 cents. This was a rise of 28 per cent year-on-year. In early trading, Wal-Mart shares gained more than 2 per cent, up $1¼ at $52¾.
John Authers, New York

EMBARCADERO CENTER

Boston Properties wins auction

The tussle for the Embarcadero Center, the landmark San Francisco office development, has been won by Boston Properties with a bid that amounts to one of the highest valuations yet seen in the current US commercial property cycle. The $1.22bn bid beat offers from Equity Office Properties and Cornerstone, two other prominent real estate investment trusts. The Center consists of 3.4m sq ft of rentable office space and 354,000 sq ft of retail space. At around $300 a sq ft for the office space, the auction set a new record for the northern Californian city.

Mort Zuckerman, chairman of Boston Properties, said the price equated to a yield from the investment of 7.8 per cent, lower than the yield on the company's other main investments. He added, though, that leases on 45 per cent of the office space in the Embarcadero came up for renewal before 2002, and that rent on this space was currently $15 a sq ft less than the market rate on average, creating the opportunity for a higher yield. He added that the price paid for the Embarcadero was still lower than the replacement cost for the development.

The purchase will be financed with $800m of debt. The high level of debt reflected "the need to protect the tax position of the seller," said Mr Zuckerman. Richard Waters, New York

Strong debut by Young & Rubicam

By Daniel Bögler in New York

Young & Rubicam, the world's fifth-largest advertising agency, made a successful debut on Wall Street yesterday. Shares in its initial public offering jumped more than 10 per cent, or $3, to $28 in early trading.

With almost 10m shares traded, it was the most active issue on the New York Stock Exchange.

Lead underwriters Donaldson Lufkin & Jenrette and Bear Stearns had already raised the flotation price to $25 from the $21-$24 range indicated in the prospectus, following strong demand.

The flotation is raising $415m, of which about $140m, net of expenses, is new money for Y&R. The remainder is being sold by Hellman & Friedman, a venture capital firm, which is selling part of its holding. Y&R's management will retain a controlling 58 per cent stake. At the current stock price, the group has a market capitalisation of almost $2bn.

Founded 75 years ago, Y&R has evolved from an advertising agency to a fully-fledged marketing services group similar to its larger rivals Omnicom, Interpublic and WPP of the UK. Apart from Y&R Advertising, it owns direct marketing provider Wunderman Cato Johnson, the Burson-Marsteller public relations agency as well as design services and a healthcare communications company.

Its blue-chip client list includes Ford, AT&T, Citibank, Colgate-Palmolive and Philip Morris.

The group has done much to shake off its sleepy image under Peter Georgescu, chairman and chief executive since 1994. It has, for instance, introduced the concept of "key corporate accounts", big corporate clients to which it attempts to cross-sell a number of services. In 1997, the group's 20 largest clients accounted for 40 per cent of its turnover, with Ford alone responsible for 10 per cent.

Y&R's revenues reached $1.4bn in 1997 and have been growing at an annual compound rate of nearly 13 per cent over the past three years, roughly twice the rate of the advertising industry as a whole. But due to financial restructuring, the group reported losses in 1996 and 1997 and expects further losses this year.

The proceeds from the flotation will initially be used to reduce borrowings, which stood at $337m at the end of last year.

TELECOMS CANADIAN GROUP SET TO RAISE US$1.6bn FROM SALE OF 14.25% HOLDING

BCE to sell UK cable stake

By Scott Morrison in Toronto and Christopher Price in London

BCE, Canada's biggest telecommunications group, yesterday put its 14.25 per cent stake in Cable & Wireless Communications, the UK's largest cable company, up for sale in a move likely to raise about US$1.6bn.

The company said it would use the proceeds to reduce debt and fund some of its recently announced strategic initiatives. Last week, BCE said it would invest in technology to provide data services, internet access and satellite television to its 10m Bell Canada customers in Ontario and Quebec. It has also unveiled a C$750m (US$523m) programme to create a national broadband telecoms company.

BCE's announcement shows it has not been able quietly to find a buyer for its CWC shares, which it holds through a subsidiary, BCI Telecom Holding.

Cable and Wireless, the UK telecoms group which is CWC's largest shareholder, could be interested in increasing its 53 per cent stake. The move could also attract a trade buyer, although the disappointing performance of the UK cable market might adversely affect the price.

London analysts believe the most likely option is for the shares to be sold to institutional investors, which have shown an increasing interest in the UK sector, since recent consolidation is thought to have improved the outlook.

Such a move would be seen as positive for CWC stock, as it would increase its liquidity. Less than 15 per cent of the shares are currently held by the public.

In a weak London market, CWC shares, which floated in April 1997 at 300p, yesterday fell 9.5p to 442p.

On Monday, CWC reported annual pre-tax losses of £49m ($80m), against profits of £80m, after a restructuring charge to help integrate the operations of the three cable companies and one telecoms group which merged to form CWC in 1996.

Yesterday's announcement raised speculation that BCE was likely also to sell its C$140m stake in Jones Intercable, the US cable television operator. BCE has been under pressure to adapt to the rapidly changing global telecoms industry.

BCE, which had revenues of C$33bn last year, has a controlling interest in Northern Telecom, the telecoms equipment manufacturer, and owns Bell Canada, the country's largest telecoms group.

Monty faces leadership test

By Scott Morrison

Jean Monty has earned a reputation as a decisive chief executive with a knack for redefining a company's strategic direction.

He has been widely praised for first turning round Telebec, a small Quebec telephone group, and then Northern Telecom, the world's sixth largest telecommunications equipment manufacturer. His success at the two subsidiaries has led him to the helm of parent BCE, Canada's largest telecommunications group.

As president and new chief executive of BCE, Mr Monty's current challenge is much more daunting.

Industry observers have been anxious to see how the company would position itself to compete in an increasingly global industry that is undergoing simultaneous deregulation, convergence and consolidation.

Mr Monty recently said BCE intended to increase revenues by investing in new technology and initiatives to integrate services for customers. These additional services would be packaged under the Bell Canada name and provide users with a one-stop alternative. Growth through acquisition was not a top priority, he said.

"We're going to focus on scope rather than scale," said Mr Monty, whose company had 1997 revenues of C$33bn (US$28bn).

Critics, however, say BCE's vision fails to address important concerns and leaves it ill-prepared to cope with the rapidly changing competitive environment. They say its conservative, low-growth strategy will not allow wholly-owned Bell Canada to increase its customer base to a critical mass to improve efficiencies as rivals jockey to consolidate.

"The industry is crying out for economies of scale," says Dvai Ghose, a telecoms analyst at HSBC Securities in Toronto.

Key to Mr Monty's vision is Bell Canada, which contributed about 57 per cent of BCE's earnings in 1997. Bell, the country's largest telephone company, has seen its long-distance market share erode to 63 per cent since competitors were allowed into the market in 1994.

Bell has tried to offset declining market share by lowering rates. Yet it expects to increase revenues by providing internet services, satellite television and wireless communications to its core residential and business customers.

In April the company announced it would invest C$750m to create a national broadband network to provide high-speed data and internet services. BCE will begin operating a new satellite this autumn for its direct-to-home television product and it will soon introduce integrated wireline and wireless voice service linked under a single phone number.

Mr Monty says that the return on technology investments will be much higher than if BCE were to acquire a competitor and increase its market base. Another consideration is that regulators are likely to frown on any takeover attempt.

BCE, in effect, has few options, says Mary Anne Demonte-Wheeler, of Loewen Ondaatje McCutcheon, a Toronto brokerage, other than to improve the productivity of its network by offering a greater number of high-growth services.

Others say priorities should be much more fundamental. One telecoms consultant argues that the company should first focus on solving operational problems at Bell Canada before tackling new initiatives. He says the company will not be able to keep up with nimble and efficient competitors if it does not address billing difficulties, service delivery problems and low morale.

Outside Canada, BCE is eyeing opportunities in wireless communications and satellite technology. Bell Canada International has recently announced new wireless investments in South Korea, Brazil and Mexico, prompting Mr Monty to forecast the company will double its foreign subscriber base in six countries this year, to 1.3m.

BCE recently lured a key executive away from a competitor to head its newly-formed Bell Satellite Services unit, and this week the company took control of Telesat, which transmits television programming and data via satellite. Mr Monty said the acquisition would enable BCE to prosper in the newly competitive global telecoms market.

Mr Monty says BCE's strategy will enable the corporation to increase revenues by about 12 per cent annually over the next five years, with earnings rising at a faster pace.

He has demonstrated his ability to turn companies round, but his true test of leadership and vision is only just beginning.

Cable and Wireless's plan to rule the world

Dick Brown, chief executive of the UK telecommunications operator, maps out his ideas for the group's future to **Alan Cane**

One wall of Dick Brown's newly decorated office in Cable and Wireless's London headquarters bears a map of the world – but one tantilisingly free of indications of his global ambitions for the telecommunications group.

C&W's genial chief executive is not one to flag his intentions to the world before the moment is right. So it is significant that at today's results meeting he is promising to start setting out his strategy for Europe. Not in much detail, he says, but enough to give a taste of what he envisages for a region critical to C&W's future.

The full-year numbers will not generate much excitement. C&W's principal subsidiaries, Hong Kong Telecom and Cable and Wireless Communications, have reported in the past week thereby taking any surprise out of the event but confirming analysts' predictions of about £1.48bn ($2.4bn) in pre-tax profits before exceptionals.

There will be plenty of exceptionals this year as the group continues its policy of disposing of more than £1bn worth of assets where it has neither outright control nor adequate influence. In March it sold its 22.3 per cent stake in Occel, a Colombian mobile phone operator, for about £58m. Last month, it cleared out most of its East European interests, selling stakes in PLD Telecom, PeterStar and Belcel to Rupert Murdoch's News Corp for £48m.

But most interesting is its planned sale of 20 per cent of Bouygues Télécom, the French mobile operator, to Telecom Italia for £456m. This deal will help secure an alliance with the Italian operator that should see the two companies sharing telecoms traffic across their combined networks. Mr Brown said: "Telecom Italia is the most powerful operator in Italy with ambitions to expand abroad. We are a global company with its footprint in more places than any other telecoms operator."

He dismisses political discontent in Italy over the potential alliance: "There is a commitment from the top of both companies to make this work".

Although Telecom Italia is the sixth largest European operator it is not an obvious partner for C&W. It is becoming clear, however, that the alliance is the foundation for Mr Brown's territorial ambitions. The UK operator has essentially had no presence on the European mainland since it pulled out of an alliance with Veba, the German industrial group, a year ago amid anxieties over Veba's plans to spend heavily on networking infrastructure.

Mr Brown said: "We looked at Europe and saw that we could have two bookends with C&W here in the UK as one bookend and Telecom Italia as the other. Now we are well positioned to go after new markets and win licences in Europe. I will be announcing that schedule on Wednesday."

The redecoration of Mr Brown's office, the first since he was appointed two years ago, seems to symbolise the progress C&W has made – shiny parquet flooring to show off Arabian carpets, a crimson tasselled hat commemorating the group's purchase of a stake in Intel, Panama's state-owned operator, a model of a dhow in silver from Bahrain.

The statistics tell the story. Since his arrival Mr Brown has overseen 18 acquisitions, mergers and disposals involving C&W with a total value of about $17bn. Among them, the creation of Cable & Wireless Communications formed from Mercury Communications and three cable companies. With a flotation value of £4.5bn, it is now worth £6.2bn.

The image of C&W as a holding company for a ragbag of overseas assets seems to have gone forever. Mr Brown talks of "stitching together global businesses" in calling card services and mobile telephony – C&W's mobile phone assets represent the world's third largest international wireless operation.

There are gaps in the global strategy which give Mr Brown and his senior managers no room for complacency. Hongkong Telecom still provides an overly large proportion – traditionally about two thirds – of total group profits. With the liberalisation of the Hong Kong international call market after 2000, the value of that asset will inevitably decline. There will be considerable interest among investors in whether Mr Brown has managed to rebalance earnings from Hong Kong Telecom and other parts of the group to any real extent.

The company has still to see its efforts to break into the Chinese mainland bear fruit. "We never said it would happen quickly," Mr Brown said.

It seems likely the group will seek a North American acquisition to strengthen its presence there, but US prices are over-ambitious by European standards.

Some analysts believe C&W should merge with a larger, well-capitalised operator to become the world's first truly global carrier. Mr Brown has never shown much enthusiasm for being acquired, however. His mental map of the world is undoubtedly bright with the yellow of C&W.

Asia setback hits BOC

By Roger Taylor

BOC, the industrial gases company, yesterday reported a 17 per cent drop in pre-tax profits for the first half of the year, because of weak demand in Asia, problems with its distribution business, and the strength of sterling.

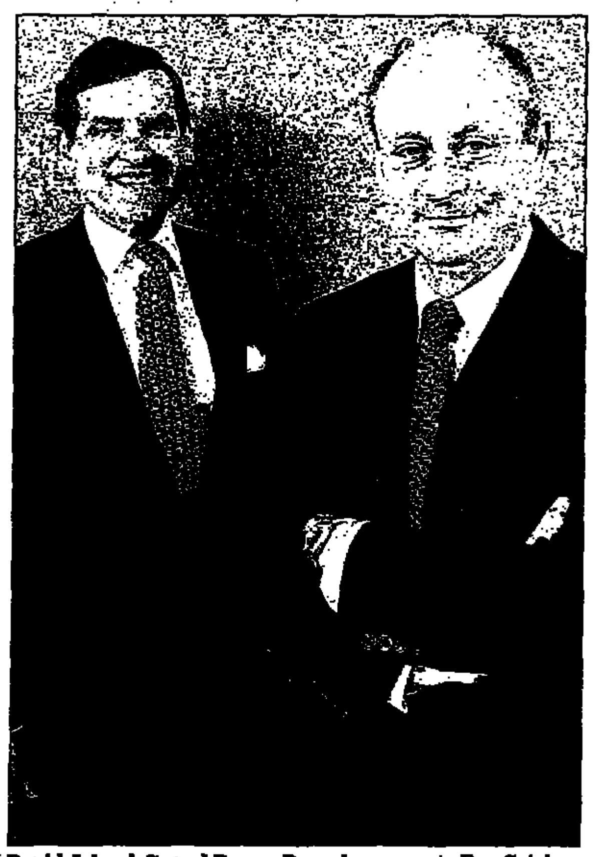
The company insisted that the underlying performance was "remarkably resilient" and said it was putting in place a range of programmes to control costs and improve sales.

However, analysts downgraded their profits forecasts to about £380-£400m for the full year. This is the second wave of downgrades for the group in recent months. Peter Edwards, analyst at ABN Amro Hoard Govett, said he had begun the year with a profits forecast of about £489m but this was reduced to £437m before falling again yesterday to £400m.

David John, chairman, said that sales were unchanged at £1.79m for the six months to March 31 but pre-tax profits fell sharply to £179.8m (£216.4m). However, adjusting for changes in currencies, BOC said turnover would have risen 8 per cent and pre-tax profits would have been down by only 12 per cent.

The two smallest divisions turned in the worst profits figures. Vacuum Technology, which supplies the semiconductor industry, reported a 15 per cent drop in operating profits, while distribution services saw its contribution fall 19 per cent.

Mr Rosenkranz, chief executive, blamed the weak semiconductor markets, particularly in Asia.



David John, left, and Danny Rosenkranz Eye Catchers

VW bid attacked

By Graham Bowley in Frankfurt and Roger Taylor in London

Bernd Pischetsrieder, chairman of German carmaker BMW, yesterday attacked the £430m ($700m) bid by rival Volkswagen for Rolls-Royce Motor Cars, insisting that only BMW could ensure the future of the UK luxury carmaker.

He told the company's annual shareholders' meeting that BMW would not withdraw its £340m bid - or increase its offer.

"The existing offer will neither be withdrawn nor under any circumstances altered," Mr Pischetsrieder said.

His comments came as Vickers, the UK engineering group which is selling Rolls-Royce, posted details to shareholders of the two offers. The board is recommending they vote for the VW offer when the two are put forward at an extraordinary meeting on June 4.

Mr Pischetsrieder argued that BMW commanded a unique advantage over Volkswagen, its rival German carmaker, in the battle for Rolls-Royce Motor Cars, because of its close links with Rolls-Royce plc, the aero-engine manufacturer which owns the Rolls Royce brand name.

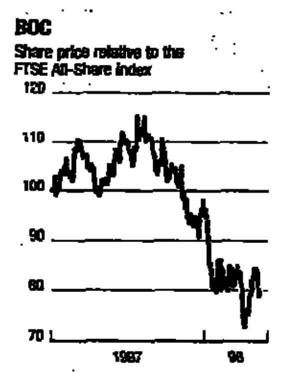
"We are convinced that the future of Rolls-Royce Motor Cars is secured only with BMW and Rolls-Royce plc," he said.

Unlike VW, BMW already has agreement with Rolls-Royce plc to use the brand name and Rolls-Royce plc has agreed to put off negotiations with other bidders about the use of the Rolls-Royce brand name until after the sale.

BMW is hoping the uncertainty over VW's relationship with the aero-engine manufacturer will undermine investors confidence in its bid. VW has made its offer unconditional on the outcome of any talks over rights to the brand name.

COMMENT

BOC



BOC is not used to being out of favour, given the growth of its industrial gases. But a large exposure to both Asia and the semiconductor industry is a hard act to sell right now. That combination is behind the sharp underperformance of the shares this year.

Yesterday's news did little to alleviate the pain, although the company deserves credit for limiting the havoc from Asia. Operating profits in local currencies even showed some improvements in most of the afflicted regions. Still, what Asia failed to knock, sterling strength finished off, and the outlook for this year's earnings is dismal.

The management has not stood still. Earlier this year, it sold the Ohmeda healthcare business. A review launched yesterday promises to attack costs and improve efficiencies. BOC's cost base, however, is not particularly out of line with its rivals, and the company took a swipe at costs just four years ago. The review may help focus minds on improving returns on assets, but this is unlikely to give BOC a dramatic cost advantage.

Meanwhile, the shares have lost their main foil. Now that Imperial Chemical Industries is no longer the main commodities play, but is transforming itself into a more glamorous speciality chemicals beast, BOC has been pushed into the shade. The shares trade at a near 10 per cent discount to the market. Until the outlook for Asia clears, it is unlikely to regain its erstwhile premium rating.

UK licensing laws

There is no such thing as a free pint. If the government liberalises Britain's kill-joy licensing laws to allow pubs to stay open later than 11pm, there will be investment winners and losers. Owners of large managed pub estates, such as Bass, will capture a greater share of the consumer pound, largely at the expense of trendy late night bar groups, cinemas and retailers. Po Na Na, an astronomically-rated chain of north-African themed bars, has the furthest to fall. The tourism industry, particular the cheap end of the hotel and fast food market, should benefit from more young people coming to the country. Since police and alcohol action groups are supporting liberalisation to promote safer, staggered drinking, investors should think hard about that elusive after-hours tipple.

APW lifts Vero bid

By Susanna Voyle

The bid battle for Vero, the UK-based supplier to the electronics and telecommunications industries, heated up yesterday as its original US suitor increased its cash offer by 22 per cent.

APW, the Milwaukee-based group, upped its agreed offer to 192p a share, valuing Vero at £115.5m ($188m). Pentair, its rival, last night said it was considering its position.

Vero makes and distributes racks and enclosures used to house cables and electronic equipment.

The latest bid represents a premium of about 61 per cent to the price of Vero shares the day before the company announced it was in talks.

Body Shop founder Anita Roddick to stand down as chief executive

By Robert Wright

Anita Roddick, the Body Shop International founder who became one of UK retailing's best-known figures, is to step down as chief executive.

Ms Roddick's move, to the post of executive co-chairman, was one of a series of shake-ups announced yesterday as Body Shop sought to recover from several years of stagnant performance. The company also announced a joint venture to run its loss-making US stores. Ms Roddick will be replaced in July by Patrick Gournay, currently executive vice-president for North and South America for Groupe Danone, the French food group.

Anita Roddick, who founded Body Shop in Brighton in 1976, will become joint co-chairman with her husband, Gordon.

Mr Roddick said of his wife's change of post: "That ceo [chief executive] role was really a complete misnomer. What Anita has always been and will always be is the creative inspiration behind the business. She's not going to change being that."

The joint venture agreement was described by one analyst as a "last ditch effort" to turn around the outlook in the US, where Body Shop has experienced disappointing sales trends over several years. The agreement will see operation of Body Shop's US stores handed to a company controlled by Adrian Bellamy, a non-executive director of the group.

Body Shop was one of the great retailing success stories of the 1980s, growing from 70 people in the UK in the mid-1980s to 5,000 people now. But, like some other UK retailers, including Laura Ashley, it ran into trouble with an over-ambitious attempt to expand into the highly competitive US market. Some products proved badly named or designed for US consumers.

Two years ago, the Roddicks, whose unconventional interests and business style have not found approval in the City, considered taking the business private. They also encountered criticism from the environmental lobby that the company did not live up to the high ethical standards it set itself. The claims were successfully rebuffed in a libel action.

With Mr Gournay's appointment as chief executive, Stuart Rose, managing director, will become executive deputy chairman, responsible for Body Shop's strategic review.

Mr Gournay was vice-president sales and distribution for Danone France between 1985 and 1989 and for the last 18 months has been executive vice president of Danone's North and South American Division. Mr Roddick said he was confident Mr Gournay would fit in with Body Shop's distinctive socially aware corporate culture.

Body Shop made pre-tax profits of £38m ($62m) for the year to February, against £31.7m for the previous year, on turnover up 8 per cent to £293m. The shares rose 2p to 121½p.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Bertam	Yr to Dec 31	2.4	(2.61)	3.64♥	(15.74♥)	12.53	(63.53)	5□	July 11	4□	5	8■
BOC	6 mths to Mar 31	1,927	(1,928)	180	(216)	23.87	(28.37)	15.4	Aug 3	14.5	-	29
Body Shop	Yr to Feb 28	293	(271)	38	(31.7♠)	11.8	(9.2)	3.8	July 10	3.2	5.6	4.7
Calais Int	Yr to Mar 31	16.2	(11.1)	0.857L♠	(5.521L♠)	0.971L†	(8.54L)	-	-	-	-	-
Deltron Elects	6 mths to Mar 31	18	(12.3)	1.4	(1.04)	4.8	(3.8)	1.18	Aug 14	1	-	3
Development Secs	Yr to Dec 31	30.9	(21)	12.4♠	(4.61♠)	42	(14.5)	2	July 7	1.8	3	2.7
Holmes & Marchant	6 mths to Mar 31	13.4	(13.1)	0.599	(0.461)	1.8	(1.4)	-	-	-	-	-
MMT Computing	6 mths to Feb 28	17	(10.7)	4.25♥	(2.42)	23.2	(13.3)	4.5	-	3.6	-	11.3
Rowe Evans	Yr to Dec 31	6.79	(7.53)	9.31♥	(10.94♥)	12.84	(17.17)	4.25§§	Aug 1	4§§	4.25§§	4§§
Sedgwick	3 mths to Mar 31★	243☆	(244)	38.3	(43.5)	5.6	(5.5)	-	-	-	-	7‡
Titon	6 mths to Mar 31	6.65	(5.76)	0.885	(0.773)	5.36	(4.7)	1.8	July 1	1.7	-	5.2
Vaux	24 wks to Mar 21	124	(135)	15.9♠	(15.21♠)	8.84	(8.33)	3.85	July 6	3.7	-	11.1
Westbury	Yr to Feb 28	304	(284)	30.6	(22.6)	23.3†	(17.3)	5	July 17	4.5	7.365	6.65

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Broadgate	6 mths to Mar 31	234	(184.5)	0.097	(0.008L)	1.94	(0.16L)	-	-	-	-	2.2
BT Income Growth	Yr to Mar 31	153.6	(116.9)	2.45	(1.99)	4.54	(3.69)	1.8‡‡	July 3	1.7	3.4	3.3
Montanaro UK	Yr to Mar 31	174.9	(141.2)	0.285	(0.617)	0.6	(1.27)	0.6	July 30	0.9	0.6	0.9
Schroder Asia Pac	6 mths to Mar 31	88.1	(91.4♦)	0.37	(0.274L)	0.26	(0.2L)	-	-	-	-	0.5

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. □Includes 4.31p (1.4p) foreign income dividend. ■Includes 4p special interim. §§Includes 3.81p (2p) foreign income dividend. ‡‡Special 0.5p also declared. ♦As at September 30 1997. ☆Total income. ★Comparatives restated. ‡Foreign income dividend.

INFORMATION TECHNOLOGY BRIEFS

Husky produces lighter-weight rugged computer

Magnesium alloy is the material of choice for the cases of high-performance portable PCs because of its strength and light weight. But these attributes carry a high price tag so manufacturers such as WPI Husky Computers, which builds rugged handheld computers for outdoor use, have been looking for a lower-cost alternative.

Following a two-year study Husky chose the latest generation of Impact Modified Plastic for its new entry-level machine, the MP2500, which at just 700g is claimed to be the lightest IMP armoured rugged computer in the world.

Coventry-based Husky, which began building rugged handhelds in 1981, has designed the machine to exceed military specifications including resistance to temperature change, dust, dropping, shock and vibration.

The MP2500, which costs £999, is built around an Intel 386 and is designed for outdoor users in a variety of industries.

www.wpihusky.co.uk

Web access from mobile

Northern Telecom (Nortel) has developed a Java-enabled mobile phone offering advantages over today's handsets, including web access and the ability to download software applications while on the move, *writes Tony Glover*.

The new handsets will be networked telephones linked to a Java server integrated into the wireless telephone network. Java is the programming language that makes software portable, allowing it to be transmitted over a wireless connection.

According to Phil Terrett, head of the Orbiter team at Nortel that developed the phone: "You will start to see Java-enabled handsets on the streets of Europe before the end of the year."

Users will be able to access information from the web. Because of bandwidth restrictions, Terrett stresses that the phone is not designed to "surf" the net, but as a terminal for personalised information.

The ability to use Java to download software would also, for instance, enable the mobile handset to be used as a powerful scientific calculator, the software for which could be "thrown away" once the calculation had been made. Other applications include a facility called Ink Notes that will enable a clip-on stylus to be used to make drawings on the handset's small screen.

But perhaps the main advantage of a Java-enabled handset will be its ease of use compared to today's overly complex "programmable" phones. For example, if the user forgets someone's number, the system enables him or her simply to key in the appropriate name in order to be put through.

Nortel, Phil Terrett, tel (UK) 01628 437224

Package support for the euro

As the 1999 launch of the euro nears, a raft of new software products is emerging to help accommodate the new currency and overcome problems with existing systems – for example the fact that most computer systems cannot print the euro symbol.

EuroGlyph is a new software package from EuroType, a UK-based company, which integrates the official EU-defined character into users' TrueType font libraries. Once installed, the software which costs £49.95, works seamlessly and automatically with all TrueType fonts in Windows 3.11, Windows 95 and Windows NT applications. The EuroGlyph *symbol can be* assigned to any key, including the Euro-symbol key on new Windows 98 keyboards.

www.eurotype.com

Paul Taylor

MANAGEMENT PROFESSIONAL SERVICE FIRMS

The enduring joys of partnership

The partnership model offers some distinct advantages, writes **Tony Jackson**, but its proponents can also learn from the company structure

At first glance, the partnership structure might seem rather outmoded. Certainly, it is a lot older than the quoted company – this century's dominant business model. Historically, too, partnerships tended to be small affairs. When a stockbroking or PR firm got big enough, it would go public and the partners would cash in.

The explosive growth of professional service firms has changed all that. The impending merger of accountants Coopers & Lybrand and Arthur Andersen, for instance, will create a monster with 8,500 partners and revenues of $13bn (£8bn).

Audit firms are not allowed to go public. But there is more to it than that. Almost all the world's big management consultancies are partnerships, including one – Booz-Allen – which used to be quoted. All, including the biggest, Andersen Consulting, say they are happy to stay that way.

Or consider investment bank Goldman Sachs, which is agonising over whether to *go public. Almost all its big* rivals are quoted, thus enjoying access to outside capital. If Goldman followed suit, it would be worth around $20bn. Even so, its partners are hesitating.

This suggests a general truth: that the partnership model has distinct advantages. Indeed, in terms of governance, it may have lessons to teach the big corporations.

Alan Morris, senior partner of City of London law firm Simmons & Simmons, was once a finance executive with some of those corporations, such as Exxon and Tate & Lyle. His chief recollection is of organisational barriers. He is a great fan of partnerships as a result.

"It's interesting," he says, "how many corporates are now grappling with issues that partnerships allow you to handle. You have quite a flat structure, you're flexible, and you're constantly reforming into teams."

But it depends what is meant by flexibility. Partnerships can be highly fluid in allocating resources day to day. When it comes to strategic decisions, they have the problem of being – at least in principle – democracies.

"The plus side of that," says the senior partner of another big law firm, "is *that when you take deci*sions, you have owner-managers on board, so there is a real push. The minus is that as you get bigger it's time-consuming. It's not just taking the decision, it's taking the time to inform everybody; and partnerships can take very odd decisions on cultural and social grounds – all of which are very important."

The strategic choices facing the professional service firm are simple. Law firms will continue to practise law, auditors to audit.

It therefore seems telling that when Arthur Andersen recently faced a genuine strategic issue – whether to split Andersen Consulting off as a separate entity – talks between the two halves of the firm collapsed in public acrimony. Are there some decisions which quoted companies, with their more autocratic structures, are better equipped to take?

Not necessarily, says Peter Smith, UK head of Coopers & Lybrand. It all comes down to the strength of the culture, which he defines as a general presumption of what ought to be done.

Paul Mitchell, UK head of the Boston Consulting Group, concedes that the partnership model does not fit all situations. Suppose *the business is highly cycli*cal, or under acute pressure for short-term performance, or needs to be turned around.

"In those cases," he says, "somebody needs to be in a position to make decisions very, very rapidly. That's not the business we're in, because of the nature of the demand."

Yet growth, the UK head of another management consultancy argues, puts the partnership model under intense pressure. "People have come up with various solutions to the problem of size, such as federations of partners, or the delegation of the vote to a smaller group," he says. "But the original model, as embodied by the City law firms, is becoming very difficult."

When it comes to taking strategic decisions, partnerships have the problem of being – at least in principle – democracies

The main answer, says Peter Smith, is to change focus. "People have to identify with the organisation, but to belong to a smaller group in social and profit *terms*," he says. "*It is quite* important to create a point of belonging."

The risk here is the creation of firms within firms. But there remains a fundamental argument for partnerships: they are managed by their owners.

In one sense, this makes partnership a model for the future. In recent years, the corporate world has been dominated by efforts to align the interests of shareholders and management: hence the rise of stock options, performance-based pay and value-based management in general.

But companies, Mr Smith argues, still have some way to go. "I don't sense the same need for involvement in the traditional corporate structure," he says. "There, the governance question is more one for the absentee shareholders. Bosses will talk about management and leadership, but not about governance as it applies to them."

Oddly, this is something that some senior partners *privately envy*. Their biggest nightmare, they agree, comes when partners take too close an interest in governance questions.

"So long as the firm is busy," one says, "everyone is out with the clients, and senior partners have a quiet life. But if the tap gets shut off, we have dozens of people around the world kicking their heels. Partners don't want to get tied up in the ownership function unless there's a hiccup. Then, boy are they interested."

The bigger the firm becomes, presumably, the more acute the problem. Mr Smith of *Coopers & Lybrand* – whose merger with Price Waterhouse will create the biggest partnership in the world – has an answer. This may be an instance, he argues, where partnerships can learn from companies.

"We're trying to take a very clear theme from the corporate world," he says: "that you should separate employment from ownership. You need a *robust* management structure for employment, and a separate view – admittedly from the same people – on ownership issues."

From a corporate standpoint, this may sound absurdly paradoxical. It depends, however, on a rather specialised definition of management. So how do the professional service firms manage their people? This will be the topic of the final article.

The final article in this three-part series will appear tomorrow.

JOHN KAY

Why the last shall be first and the first shall fade away

History teaches that innovative companies are rarely the most successful. Imitators use distribution and marketing to catch up

Have you heard of Berkey or Ampex? Gablinger or Chux? Perhaps you should have, because each of them occupies an important place in the history of product innovation. Berkey produced the first handheld electronic calculators, Ampex the first video recorders. Gablinger developed low alcohol lager and Chux sold the first disposable nappies.

Or perhaps you should not, because none of these companies made a commercial success of their innovations. Today the calculators we use are probably made by Casio, our video recorder comes from Matsushita: our low alcohol beer is Miller Lite, our nappies are made by Procter & Gamble. In each of these markets the innovator was swept away.

As the future of EMI hangs in the balance, it is a good moment to recall that this company has one of the most remarkable records of innovation of any in the world. EMI was a pioneer in television and computing and its CAT scanner transformed radiography. It has not made any of these products for many years. Our televisions come from Sony, our computers from IBM or Dell, and GE is market leader in scanners.

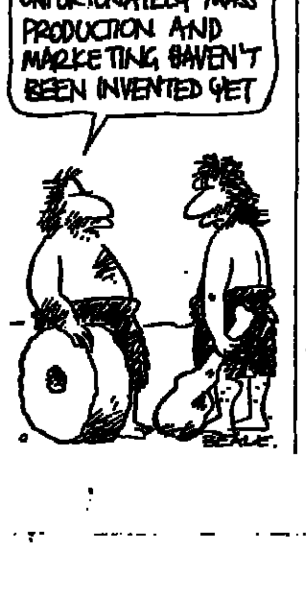
Xerox looks like an exception to this sorry catalogue. The company was first into the photocopier market and, even if its dominance was ultimately challenged by Canon, it remains a large and successful company today. But Xerox was also a pioneer in fax machines and personal computers. Each of these eventually proved to be a success – but not for the Xerox Corporation.

As we all know, it was Apple that developed the personal computer market. But Apple's leadership quickly disappeared when IBM came on the scene. Apple then jumped ahead by introducing the graphical user interface. Its windows and mice brought personal computing within the reach of anyone. But it is Microsoft that does this now.

The business world is not very kind to pioneers. Contrast EMI's experience with that of Britain's most successful company of the past two decades – Glaxo Wellcome. Each had, in the 1970s, a product that would ultimately take the US healthcare market by storm. Both the CAT scanner and anti-ulcerants were to win Nobel prizes for the British scientists who invented them.

But there the similarities end. EMI was proud to employ Geoffrey Houndsfield, who invented the scanner. It established a US distribution network and manufacturing facility to exploit his innovation – and was quickly crushed by the superior political, marketing and technical skills of GE.

James Black, who developed anti-ulcerants, did not work for Glaxo, but for SmithKline. Glaxo's Zantac was an imitative product, second to market. US distribution was initially contracted out to Hoffman la Roche, the only foreign-owned drug company previously to have enjoyed success in US distribution. The superior marketing skills of Glaxo and its partners enabled Zantac to overtake SmithKline's Tagamet and become the world's best-selling drug. Glaxo's achievement was based not on the speed or quality of its innovation but on its commercial skills in exploiting it.



What is true of technical innovation is also true of innovation in business process. Direct Line is inevitably losing market share to Johnny-come-lately established insurers. American Express may have pioneered plastic money, but it was to be Citibank, Bank of America and even Sears Roebuck which were to capture the market with Mastercard, Visa and Discover.

Next and Ratners identified unexploited market niches – fashionable clothing for older women and jewellery cheaper than you imagined buying – only to find that established retailers could do the same job at least as well.

And what we see as a first mover advantage is often only that because we now think of the successful innovator as the first mover. Many spreadsheet programmes were developed in the 1980s and Lotus succeeded not because it was the first or best but because it was the product available at the moment the market was ready to take off. Even if you know how a market will develop, timing is a matter of luck – or of quite exceptional skill.

There are two closely related lessons. One is that being first is not often very important. The other is that innovation is rarely a source of competitive advantage on its own. Individuals, and small companies, can make a great deal of money out of good new ideas. The success of large established corporations – Matsushita, Philip Morris, IBM or General Electric – is generally based on other things: their distribution capability, their depth of technical expertise, their marketing skills. And time and again these characteristics enable them to develop the innovative concept far more effectively than the innovators themselves.

This is not to say that there is no role in business for the great innovator. After all, General Electric was built on the extraordinary fecundity of Thomas Edison's mind, the Ford motor company on the abilities of its eponymous founder. The imagination of Walt Disney created a company that is still without parallel or rival. Perhaps Akio Morita of Sony occupies a similar place in the annals of modern business.

However, while many chief executives may see themselves as Edisons, or Fords, Disneys or Moritas, few of them actually are. Genius is indeed a source of competitive advantage, but necessarily a rare one. So when you are told that the key to future business success is to see the future more quickly or more clearly than other people, ask which established cases in business history illustrate the point. And try to remember Berkey and Ampex, Gablinger and Chux.

The author is the Peter Moores Director of the Said Business School at Oxford University and a director of London Economics. This column appears fortnightly.

IT INTERVIEW JAN BAAN

Wall Street goes Dutch on software

Geoff Nairn on the Baan success story and its founders' unusual attitude towards money

It is the dream on which Silicon Valley is based: a good idea and a successful initial public offering turn a company's founders into billionaires overnight. But for Jan and Paul Baan, the two Dutch brothers who have built enterprise software company Baan into one of the hottest stocks on Wall Street, immense wealth holds little attraction.

Both are devout Calvinists and prior to Baan's IPO in 1995, the brothers transferred their majority stake in the company to a foundation they created to finance charitable work around the world. In the past two years, it has disbursed more than $150m (£90m).

"We were afraid that if the business continued to grow we could be worth more than $100m [each] and we asked ourselves if we could handle that," says Jan Baan, the chief executive. Had the brothers not transferred their shares, both would be billionaires as the stake the foundation holds in Baan is worth about $4bn. "If I had to give my stake away today it would be very difficult," admits Mr Baan. "It is a thousand times easier to give away money before rather than after you get it."

Baan is one of the few big software companies that specialise in complex business software called enterprise resource planning (ERP) systems. The ERP market is booming and analysts predict it could treble in size from $10bn to more than $30bn in three years. "It is maybe the most attractive market in the IT industry," says Mr Baan.

The company likes to see itself as the "enfant terrible" of the ERP industry, driving innovation and challenging bigger players, in particular Germany's SAP. "Sometimes it seems like there is only SAP, but we have grown from being 10 times smaller [than SAP] a few years ago to just four times smaller today," he says.

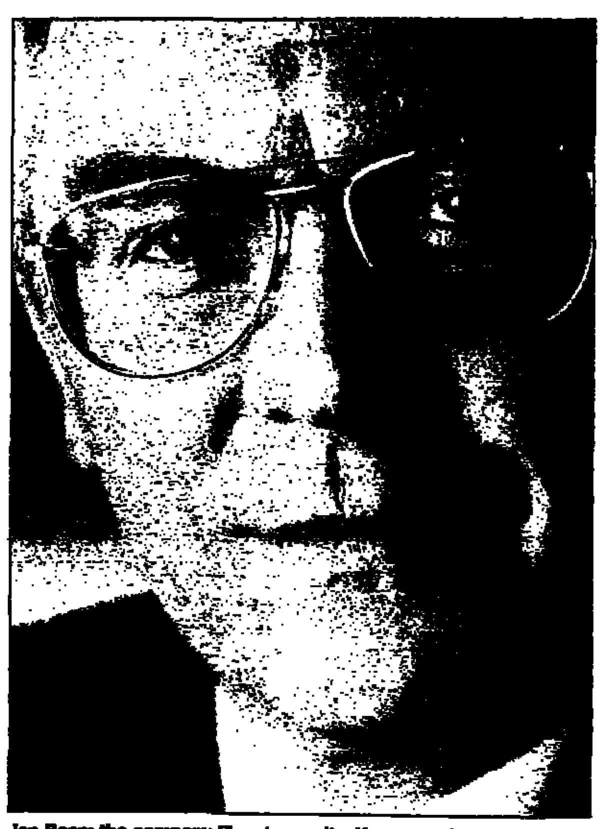
Mr Baan started the company in 1978 and for 15 years it prospered quietly as a supplier of off-the-shelf manufacturing software based in the small Dutch town of Putten. In 1993, the company's fortunes were transformed when a US venture capital firm realised the enormous potential for Baan's software in the US and invested in the Dutch company. A successful IPO soon followed.

"People in the US are born with dollar signs in their eyes, but when we started we did not even know what 'IPO' meant," Mr Baan says. Baan revenues have grown at a compound annual rate of 75 per cent from $227m in 1995 to $685m in 1997. Wall Street believes there is plenty of room for growth as more organisations turn to Baan's ERP software to automate their business processes.

'It is a thousand times easier to give away money before rather than after you get it'

"The company has good products, a solid senior management team and plays in a rapidly expanding market," says US investment bank Salomon Smith Barney.

Put simply, what an ERP system does is to keep track of business transactions in the areas of finance, customer order management and manufacturing. To do this well requires a mass of "business rules" to be drawn up to describe the business processes and an army of consultants to help implement the rules. Consultancy fees can easily double the cost of an ERP project. Mr Baan says the average order for Baan software is around $400,000, but for larger ERP customers the cost can run to many millions of dollars and implementation may take several years.



Jan Baan: the company likes to see itself as an enfant terrible

Baan's largest customer is Boeing, the aircraft manufacturer, which in 1994 chose the Dutch company, then hardly known in the US, over established ERP suppliers SAP and Oracle. "Boeing is doing probably the biggest business process re-engineering implementation in the industry with 25,000 users," says Mr Baan.

The company is using Baan's software to reduce the lead times needed for aircraft from 16 months to just six and so hopefully leapfrog its European arch-rival Airbus Industrie.

"Baan is the cockpit of Boeing," says Mr Baan, referring to the software's ability to control myriad planning, distribution, manufacturing, logistics and accounting functions.

One of the traditional criticisms of ERP is the need to install or upgrade a complete system in one go, which creates big upheavals in organisations. Baan recently unveiled a new component-based product suite that aims to do away with this approach by allowing customers to upgrade just parts of the system and at their own pace.

This practice is being copied by other ERP vendors and is particularly important in reaching smaller companies that baulk at the high costs of a traditional monolithic ERP system.

"The next gold mine is in this mid-market," says Mr Baan, who says smaller companies could account for half of Baan's revenue in two years. The company last month formed a division focused on such customers.

For all its rapid growth of recent years, Baan is still a small player in the business software industry, and so alliances and acquisitions are essential to extend its reach. It has invested in 10 companies in the past year alone. Baan's biggest partner is Microsoft and chairman Bill Gates last month announced the two companies' "common vision for the integrated enterprise". The agreement means Baan will use Microsoft technology in its component-based software and the two companies will collaborate on future Microsoft technology.

ERP has been described as the best software business Mr Gates does not own, and Mr Baan hopes to keep it that way by treating him as an ally rather than potential competitor. "Mr Gates will not go into this business – it's just too complex," he says.

EURO PRICES

EQUITIES

Slow start for new euro contract

EUROPEAN OVERVIEW

by Philip Coggan, Markets Editor

European stock markets shed some of Monday's gains yesterday, after a move in the 30-year US Treasury bond yield above 6 per cent dampened some of Wall Street's recent enthusiasm.

The FTSE Eurotop 300 index closed down 0.9 per cent or 11.01 points at 1,224.49. The Eurotop Ebloc 100 index, which includes companies in those countries that are scheduled to take part in economic and monetary union, fell 9.48 points or 0.93 per cent to 1,012.78.

The Eurotop 100, which includes companies from "out" countries such as the UK, shed 26.4 to 2,812.24. It was not an auspicious day for the start of trading in the Eurotop 100 contract on the London International Financial Futures Exchange and sure enough, only 73 contracts changed hands. However, business is often slow when new contracts are introduced.

The day started off on a subdued note after the disappointing end to Monday trading on Wall Street where the Dow Jones Industrial Average lost an early 100 point gain to end only 36 points higher.

A fall in US Treasury bond prices, as investors grew nervous ahead of economic data and the next meeting of the Federal Reserve's open market committee, took its toll on European bond markets, with the German bund future shedding around a third of a point. European currency rates were fairly stable.

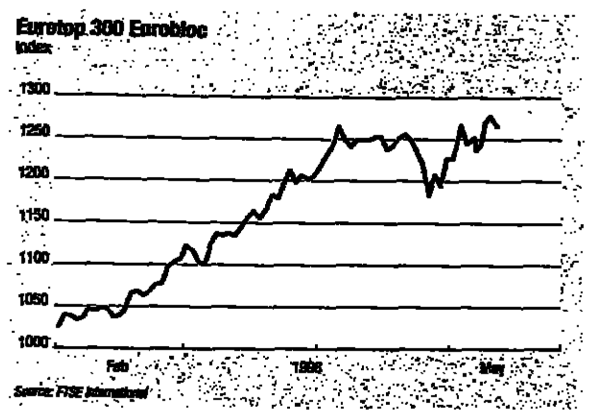
Adding to negative sentiment was a sell-off in Asian stock markets, prompted by Japanese economic worries and the Indian nuclear tests.

Among individual sectors, automobiles was one of the biggest fallers, dropping 1.8 per cent. Daimler-Benz, which agreed a merger with Chrysler of the US last week, shed Ecu 2.6 to Ecu 98.7 on profit-taking. But BMW rose Ecu 3.5 to Ecu 1,021.6, after it pulled out of the bid battle for Rolls-Royce Motors.

The information technology sector shed 2.2 per cent, thanks largely to a steep drop in France's Cap Gemini which lost Ecu 5.1 to Ecu 114.75.

Deutsche Telekom shed Ecu 0.4 to Ecu 22.79 after announcing provisions of DM3.5-4.5bn after a regulator's decision not to allow it to raise fees to cable users.

Eurotop 300 Eurobloc
Index



Source: FTSE International

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.730	95.745	-0.015	95.750	95.730	34	12603
Sep	95.770	95.775	-0.015	95.790	95.750	10	17489
Dec	95.870	95.885	-0.015	95.890	95.870	24	7122
Mar		95.780	-0.020			0	5240

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS May	CALLS Jun	CALLS Jul	CALLS Sep	PUTS May	PUTS Jun	PUTS Jul	PUTS Sep
95750	0.025	0.045	0.090	0.110	0.030	0.050	0.085	0.085
95875	0	0.010			0.130	0.140		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	2805.0	2814.0	+9.0	2817.0	2805.0	68	0
Sep	2842.0	2840.0	-2.0	2842.0	2842.0	5	0

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2750 C	2750 P	2775 C	2775 P	2800 C	2800 P	2825 C	2825 P	2850 C	2850 P	2875 C	2875 P	2900 C	2900 P	2925 C	2925 P
May	73	7	62	11	34	17	19	28	8	43	3	65	½	88	1	112
Jun	128	65	112	73	95	80	83	92	76	106	56	119	46	134	38	150

Calls - Puts - Premiums shown are based on settlement prices.

OTHER INDICES

	May 12	May 11	May 8	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3291.93	3300.81	(u)	3386.00	2574.51	3386.00	2976.42
DJ Euro Stx 50	3290.86	3297.58	(u)	3346.86	2468.81	3346.86	2865.52
MSCI Europe	1232.83*	1213.59	1213.59	1240.82	980.59	1240.82	510.78

Source: Eodd(part of FT Information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

May 12 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1224.49	-0.89	-11.01	1.93	10.80	1245.29
FTSE Eurotop 100	2812.24	-0.93	-26.45	2.00	7.58	996.08
FTSE Ebloc 100	1012.78	-0.93	-9.48	1.60	2.67	1015.48
FTSE Eurotop 300 Regions						
Eurobloc	1264.44	-0.87	-11.04	1.57	6.08	1275.67
UK	1140.67	-1.01	-11.69	2.79	17.40	1177.71
Europe Ex-Eurobloc	1194.50	-0.92	-11.04	2.28	14.23	1221.68
Europe Ex-UK	1272.77	-0.83	-10.63	1.49	7.05	1283.38
FTSE Eurotop Industry Sectors						
RESOURCES	1042.31	+0.23	+2.42	2.66	13.08	1070.77
Extractive Industries	992.92	-1.93	-19.56	2.60	0.00	992.92
Oil, Integrated	998.68	+0.35	+3.49	2.66	6.09	1004.88
Oil, Exploration & Prod	995.65	-0.09	-0.89	2.43	0.00	995.65
GENERAL INDUSTRIES	1208.31	-0.76	-9.27	1.76	8.95	1220.94
Construction	1069.39	-1.94	-21.17	2.87	0.00	1069.39
Building Matls & Merchs	1037.04	-0.15	-1.51	2.56	0.00	1037.04
Chemicals	1001.84	-0.60	-6.00	2.15	7.89	1009.82
Diversified Industrials	1018.76	-0.35	-3.55	2.03	0.00	1018.76
Electronic & Elect Equip	1051.73	-0.48	-5.05	1.58	0.00	1051.73
Engineering	1013.81	-1.21	-12.42	2.01	0.40	1014.21
Paper, Pckg & Printing	1045.60	+0.70	+7.28	2.26	0.00	1045.60
CONSUMER GOODS	1158.44	-0.79	-9.27	1.58	9.80	1161.03
Automobiles	1064.11	-1.78	-19.29	0.85	0.00	1064.11
Alcoholic Beverages	992.59	-0.43	-4.30	2.33	1.86	994.47
Food Producers	1001.28	-0.23	-2.30	1.55	2.05	1003.34
Household Goods & Texts	1033.71	+0.43	+4.40	1.19	0.72	1034.44
Healthcare	968.43	+0.88	+8.43	2.37	0.00	968.43
Pharmaceuticals	1001.16	-1.28	-12.97	1.33	1.03	1002.20
Tobacco	1000.59	-0.80	-8.09	4.23	0.00	1000.59
SERVICES	1155.30	-0.58	-6.77	1.91	7.43	1172.04
Distribution	1013.86	+0.21	+2.11	0.97	2.70	1016.40
Leisure & Hotels	990.20	-0.19	-1.90	2.44	0.00	990.20
Media	1004.58	-0.33	-3.37	2.29	0.00	1004.58
Retailers, Food	978.19	-1.08	-10.66	2.07	0.00	978.19
Retailers, General	993.70	+0.44	+4.32	2.25	0.00	993.70
Telecommunications	1008.73	-0.93	-9.47	1.63	0.00	1008.73
Breweries, Pubs & Rests	953.94	0.00	-0.02	2.81	0.00	953.94
Support Services	968.52	-1.21	-11.90	1.33	3.20	971.68
Transport	1002.82	+0.34	+3.42	2.19	0.59	1003.42
Information Technology	979.42	-2.29	-22.97	0.42	2.23	981.64
UTILITIES	1289.58	-1.37	-17.59	3.41	23.71	1308.57
Electricity	989.55	-1.68	-16.34	3.53	0.00	989.55
Gas Distribution	971.04	-1.38	-13.58	1.89	83.72	1059.38
Water	945.23	+0.41	+3.87	5.32	0.00	945.23
FINANCIALS	1360.67	-1.47	-20.35	1.83	12.87	1381.92
Banks,Retail	998.29	-1.34	-13.58	2.07	2.45	1000.72
Insurance	985.47	-1.84	-18.52	1.29	3.23	988.69
Life Insurance	983.10	-2.00	-20.03	1.51	0.00	983.10
Other Financial	999.98	-0.51	-5.13	1.96	0.00	999.98
Investment Companies	987.44	+0.71	+6.91	2.23	0.00	987.44
Property	946.35	-1.59	-15.29	2.79	0.00	946.35

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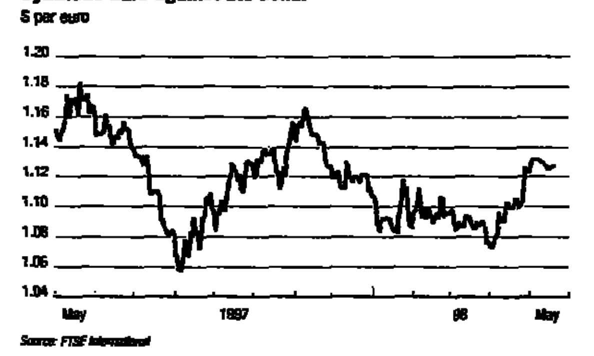
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

May 12	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.067187	+0.0009	0.01	+0.0010	0.01
Belgium	BEF	41.238908	-0.0022	-0.01	+0.0136	0.03
Czech Republic	CZK	36.588154	-0.0144	-0.04	+0.0610	0.17
Denmark	DKK	7.614948	-0.0014	-0.02	-0.0090	-0.12
Finland	FIM	6.073756	-0.0017	-0.03	-0.0012	-0.02
France	FRF	6.703435	+0.0010	0.01	+0.0010	0.02
Germany	DEM	1.998090	+0.0000	0.00	-0.0000	0.00
Greece	GRD	347.292205	-0.1573	-0.05	+0.9855	0.28
Hungary	HUF	236.298603	+0.1439	0.06	+0.3511	0.15
Ireland	IEP	0.793125	-0.0014	-0.18	-0.0021	-0.26
Italy	ITL	1971.661348	+0.3576	0.02	-0.5444	-0.03
Luxembourg	LUF	41.238908	-0.0022	-0.01	+0.0136	0.03
Netherlands	NLG	2.252651	+0.0001	0.00	+0.0006	0.03
Norway	NOK	8.363241	+0.0050	0.06	+0.0629	0.76
Poland	PLN	3.812994	+0.0034	0.09	+0.0223	0.59
Portugal	PTE	204.493616	-0.3730	-0.18	-0.1611	-0.08
Romania	ROL	9560.645411	+26.7980	0.28	+98.8965	1.02
Russia	RUB	6.921864	+0.0308	0.45	+0.0310	0.45
Slovakia	SKK	38.452099	+0.0410	0.11	-0.1434	-0.37
Spain	ESP	169.771154	-0.0433	-0.03	+0.0798	0.05
Sweden	SEK	8.570168	-0.0108	-0.13	-0.0274	-0.32
Switzerland	CHF	1.658368	-0.0010	-0.06	-0.0045	-0.27
United Kingdom	GBP	0.689268	-0.0009	-0.12	+0.0096	1.42
ECU	ECU	1.015372	-0.0001	-0.01	+0.0016	0.16
Americas						
Brazil	BRL	1.290673	+0.0015	0.11	-0.0001	0.00
Canada	CAD	1.613172	+0.0005	0.03	-0.0103	-0.64
Mexico	MXN	9.565151	+0.0397	0.42	+0.0076	0.08
United States	USD	1.126438	+0.0012	0.10	-0.0012	-0.11
Pacific/Middle East/Africa						
Australia	AUD	1.777182	+0.0043	0.24	+0.0181	1.03
Hong Kong	HKD	8.729334	+0.0091	0.10	-0.0089	-0.10
Japan	JPY	150.756875	+1.4223	0.95	+2.1980	1.48
Singapore	SGD	1.850175	+0.0222	1.21	+0.0647	3.63
South Africa	ZAR	5.714985	+0.0183	0.32	+0.0118	0.21

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying SDR weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends.

Synthetic Euro against the dollar
$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

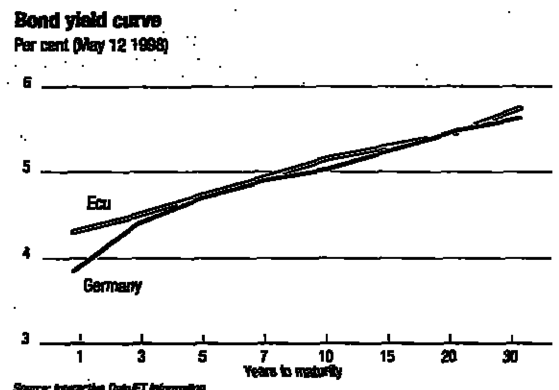
Bilateral conversion rates against the D-Mark

May 12	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward Int rate	Diff Int rate v DEM
Austria	7.03552	7.0368	0.02	0.01	7.0377	3.83	0.02
Belgium	20.6255	20.6288	0.02	-0.02	20.6338	3.85	0.04
France	3.35386	3.3532	-0.02	-0.04	3.3527	3.79	-0.02
Finland	3.04001	3.0383	-0.06	-0.04	3.0402	3.91	0.1
Ireland	0.402676	0.3967	-1.48	-1.22	0.4012	5.61	1.8
Italy	990.002	986.2794	-0.38	-0.35	991.2624	4.61	0.8
Luxembourg	20.6255	20.6288	0.02	-0.02	20.6338	3.85	0.04
Netherlands	1.12674	1.1268	0.01	-0.02	1.1268	3.81	0
Portugal	102.505	102.2933	-0.21	-0.13	102.4957	4.12	0.31
Spain	85.0722	84.9242	-0.17	-0.22	85.1453	4.22	0.41
Germany	1					3.81	

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3; forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates; Diff Int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve
Per cent (May 12 1998)



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

May 12	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible issues								
Belgium (Kingdom of)	03/08	5.750	N/A	104.390	5.17	0.05	0.19	0.02
France (Rep of)	04/08	5.250	N/A	101.180	5.09	0.04	0.19	-0.06
Italy (Rep of)	05/08	5.000	AA	98.390	5.21	0.04	0.12	0.06
Portugal (Rep of)	06/08	5.375	AA-	101.240	5.21	0.03	0.19	0.06
Euro issues								
Abbey Natl Treas Srv	02/03	4.875	AA	99.900	4.89	0.06	0.36	0.17
Gen Electric Cap Crp	10/04	5.500	AAA	102.570	5.01	0.04	0.22	0.15
Oest Kontrollbank	04/08	5.250	AAA	100.080	5.24	0.05	0.16	0.09
Cred Local de France	04/08	5.250	AA+	98.670	5.43	0.06	0.20	0.28
Ecu issues								
Bayer Hypo & Wch Bk	07/01	5.000	A+	101.000	4.65	0.11	0.22	0.16
Cred Foncier France	03/04	8.375	A	114.360	5.43	0.04	0.14	0.57
Euro Inv Bank	04/04	5.250	AAA	102.323	4.79	0.04	0.15	-0.07
ABN Amro Hldg. NV	04/07	6.375	AA-	106.290	5.47	0.03	0.12	0.37

Source. Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

May 12	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"INs"						
Austria	-0.13	-0.02	0.04	0.00	0.03	-0.04
Belgium	-0.10	0.01	0.04	0.03	0.03	-0.03
Finland	-0.17	0.06	0.04	-0.02	-0.32	-0.61
France	-0.17	-0.04	-0.08	-0.05	-0.01	-0.10
Germany	-0.22	-0.03	-0.03	-0.12	0.02	-0.12
Ireland	0.48	0.17	0.10	0.08	0.10	0.12
Italy	0.20	0.21	0.14	0.14	0.20	0.06
Luxembourg	-0.10	0.01	0.04	0.03	0.03	-0.03
Netherlands	-0.15	-0.03	-0.05	-0.08	0.03	-0.12
Portugal	-0.03	0.14	0.06	0.04	0.38	0.33
Spain	-0.04	0.05	0.10	0.06	0.20	0.27
"OUTs"						
Denmark	0.43	0.34	0.25	0.19	0.13	0.12
Greece	5.50	4.26	3.49	2.84	2.54	2.25
Sweden	0.48	0.33	0.24	0.17	0.14	-0.15
UK	2.08	1.26	1.05	0.72	0.42	0.00

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

May 12	S & P rating	Red date	Coupn	Currency code	Spread Spread	Spread wk ago	mth ago
KFW	AAA	01/09	5.000	DEM	0.01	-0.01	0.03
France Telcom	AA+	11/06	6.250	FRF	0.19	0.17	0.30
Halifax	AA	07/07	5.625	DEM	0.19	0.18	0.29
Ing Bank NV	AA-	01/08	5.500	NLG	0.17	0.19	0.25
Bayer Hypo W Bk	A+	02/02	6.750	ITL	0.32	0.28	0.76
Cred Foncier	A	02/03	7.250	DEM	0.36	0.35	0.87
Thomson-Brandt Int	A-	03/04	6.375	FRF	0.31	0.33	0.54
Generale des Eaux	BBB+	03/04	6.250	FRF	0.25	0.25	0.56
Bank of China	BBB	07/99	7.125	DEM	0.68	0.66	0.48
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	0.69	0.70	1.42
Korea Dev Bank	BB+	11/02	5.625	FRF	4.34	4.12	5.44

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

FTSE EUROTOP 300

Name	Price (Ecu)	Chge + or -	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
[illegible]					
AUTOMOBILES					
[illegible]					
BANKS RETAIL					
[illegible]					
BREWERIES, PUBS & RESTAURANTS					
[illegible]					
BUILDING MATERIALS & MERCHANTS					
[illegible]					
CHEMICALS					
[illegible]					
CONSTRUCTION					
[illegible]					
DISTRIBUTORS					
[illegible]					
DIVERSIFIED INDUSTRIALS					
[illegible]					
ELECTRICITY					
[illegible]					
ELECTRONIC & ELECTRICAL EQPT.					
[illegible]					
ENGINEERING					
[illegible]					
EXTRACTIVE INDUSTRIES					
[illegible]					
FOOD PRODUCERS					
[illegible]					
GAS DISTRIBUTION					
[illegible]					
HEALTH CARE					
[illegible]					
HOUSEHOLD GOODS & TEXTILES					
[illegible]					
INFORMATION TECHNOLOGY					
[illegible]					
INSURANCE					
[illegible]					
INVESTMENT COMPANIES					
[illegible]					
LEISURE & HOTELS					
[illegible]					
LIFE INSURANCE					
[illegible]					
MEDIA					
[illegible]					
OIL, EXPLORATION & PRODUCTION					
[illegible]					
OIL, INTEGRATED					
[illegible]					
OTHER FINANCIAL					
[illegible]					
PAPER PACKAGING & PRINTING					
[illegible]					
PHARMACEUTICALS					
Astra A	19.85	-.2	30.7	28.8	1.1
Elf Sanofi	110.35	-1.8	11.7	1.2	1.8
Glaxo Wellcome	25.37	-.1	[illegible]	[illegible]	[illegible]
[illegible]					
PROPERTY					
[illegible]					
RETAILERS, FOOD					
[illegible]					
RETAILERS, GENERAL					
[illegible]					
SUPPORT SERVICES					
[illegible]					
TELECOMMUNICATIONS					
[illegible]					
TOBACCO					
[illegible]					
TRANSPORT					
[illegible]					
WATER					
[illegible]					

Notes

Price data and market capitalisations supplied by FTSE International. [illegible]

European prices lower in thin trading

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Prices in Europe fell but activity was thin amid a lack of domestic news and investors awaited signals – from the US and Germany – on the direction of interest rates.

European bonds continued to look to US Treasuries for inspiration and figures showing French consumer confidence had soured did nothing to spark life into the market.

Attention was focused on tomorrow's meeting of the Bundesbank's council and next week's meeting of the Federal Reserve's Open Market Committee in the US. However, with a consensus developing that interest rates have peaked, few analysts were expecting an upward move.

"It would seem unlikely that we'll get anything to alter the market's current conviction that the Fed is going to hold for now. The likely verdict is life continues as we know it," said Kit Juckes, at NatWest.

That view was reinforced by fresh jitters in most markets over prospects for another bout of economic trouble in Asia.

US TREASURIES rose slightly ahead of an auction of three-year notes. By early afternoon the benchmark 30-year bond had gained ⅛ to 101$\frac{31}{32}$, sending the yield down to 6.022 per cent.

Among shorter-term issues, the two-year note rose $\frac{1}{32}$ to 99$\frac{31}{32}$, to yield 5.641 per cent while the 10-year note was up $\frac{3}{32}$ to 98$\frac{1}{32}$, yielding 5.757 per cent.

Traders were preparing for the final auction of $10bn in three-year notes, set for later in the day. The retail sales report, to be released late yesterday, continued to be a leading issue, with expectations of a strong report.

"It will be a surprise if retail sales comes in weaker than expected," said Marcello Frustaci, senior vice-president and trading manager at Daiwa Securities.

The **UK GILTS** market drifted lower, with the only interest coming with the announcement of a £3bn, 10-year bond issue, which was larger than expected.

"This was somewhat surprising given the total sales target [this year] of £11bn," said one dealer, noting a modest sell-off at the long end of the yield curve as a result.

Gilts nevertheless outperformed German bunds, with the yield spread over bunds narrowing to 95 basis points from the previous day's 98 points.

A Bank of England report to be released today is expected to signal a softening of its stance on inflation, and markets are looking to the monetary policy committee's minutes to reflect the view that the interest rate cycle has peaked.

Support for that view came with the overnight release of UK retail consortium retail sales figures showing growth up sharply to 5.7 per cent in April from 0.4 per cent in March.

The June gilt future settled at 108.14, down 28 basis points on Monday's level of 108.42, in modest volume of 56,000 contracts.

GERMAN BUNDS developed nerves ahead of today's US producer prices, ending lower on fears of a weaker US Treasury market overnight.

The Bundesbank council is due to meet on Thursday but fears of a rate rise have largely dissolved, a process that was helped yesterday when council member Hans-Juergen Koebnick said he saw no reason to raise rates.

"I don't think many people are expecting any rate hikes," said David Keeble, strategist at Credit Suisse First Boston.

The June future settled at 106.45, down from the previous close of 106.83 after trading in a 35 basis point range.

ITALIAN BOND futures tracked other European markets by ending lower, with the market awaiting the Italian's treasury's announcement of three, five and 30-year BTPs to be offered at auction on Friday. The June future ended 34 basis points lower at 118.26 after trading in a range of 118.08 to 118.52.

DUTCH BONDS added to supply with tap sales of the reopened 5.50 per cent January 2028 bond yesterday morning as part of the Dutch finance ministry's plans to raise between Fl 3bn and Fl 4bn guilders.

Japanese government bond yields hit fresh lows

Yields on Japanese government bonds hit fresh lows yesterday as worries about the economy resurfaced, *writes Vincent Boland.* The yield on the benchmark JGB 182 fell to 1.3 per cent in Tokyo trading overnight and remained supported at that level later in London, dealers said.

The levels achieved yesterday came after the Bank of Japan said domestic wholesale prices fell 2.3 per cent between March and April, confirming fears that deflation was setting in.

"This just shows how recessionary sentiment is in Japan at the moment," said Stephen Hannah, head of research at IBJ International in London.

Analysts said yields were still headed downward as investors continued to chase returns. With the stock market moribund and interest rates even lower than bond yields, people were still willing to buy JGBs even at current levels.

ADB scales down global five-year issue to $2bn

INTERNATIONAL BONDS

By Edward Luce

The Asian Development Bank has scaled down today's much-awaited global bond offering, in part because of continued market concern about the economic and social situation in South Korea and Indonesia.

The $2bn bond, which has been reduced from talk of between $3bn and $4bn at the ADB's recent annual meeting in Geneva, will help fund some of the ADB's contribution to rescue packages for Korea, Indonesia and Thailand led by the International Monetary Fund.

Syndicate managers said the bond, which will have a maturity of five years, would be priced at a yield spread of between 26 and 28 basis points over US Treasuries.

That would be two or three basis points wider than earlier projections and would come at a spread of about eight basis points over the World Bank's benchmark five-year dollar bond.

Concerns about the ability of the South Korean government to restructure the country's debt-burdened private sector, and over the Indonesian government's ability to push through a socially-divisive economic reform package, have increased bearish sentiment towards Asia in recent days.

These fears have been compounded by the persistent weakness of the Japanese yen against the US dollar.

"If the yen continues to slide, this will hit China hard," said one bond official. "The market is not in the mood for exposure to Asia, so the ADB has had to take account of this." The ADB has an AAA credit rating.

Elsewhere, **PORTUGAL** issued its first 15-year bond in D-Marks as part of the country's drive to lengthen the average maturity of its sovereign debt, which is among the lowest in Europe.

The DM1bn issue, priced to yield 18 basis points over bunds, will be fungible with a forthcoming escudo-denominated deal after European monetary union.

The bond, which follows the success of a 10-year D-Mark offering by Portugal in February, proved popular with investors across Europe. An official at ABN Amro, joint lead with Commerzbank, said about 90 per cent of its book went outside Germany. It tightened by one basis point after pricing.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
US Central Credit Union	350	6.00	99.428R	May 2003	0.25R	+35(5¾Apr03)	Lehman Brothers Intl
Ciba Specialty Chemicals	300	6.125	99.685R	May 2003	0.325R	+40(5¾Apr03)	JP Morgan Securities
CAF	150	6.75	99.561R	May 2003	0.35R	+105(Apr03)	Deutsche/Merrill Lynch
D-MARKS							
Deutsche Telekom Intl Fin	2bn	5.25	99.377R	May 2008	0.325R	+29(5¼Jan08)	Deutsche/Dresdner KB
Republic of Portugal(a)	1bn	5.45(s)	100.01R	Sep 2013	0.375R	+18(f)	ABN Amro/Commerzbank
Bayerische Hypo(b)	150	6.50(l)	99.25	Jun 2000	2.00	-	BayerHypo/BayerVB
SWISS FRANCS							
Westland-Utrecht Hypo‡	215	(c)	100.00	May 2001	0.05	-	Deutsche Bank (Schweiz)
ITALIAN LIRE							
ING Bank, via Sao Paulo(d)	200bn	7.50	99.95R	May 2001	0.50R	+275(swaps)	Credito Italiano
World Bank(e)	150bn	zero	99.70r	Jun 2003	0.50r	-	Banca di Roma
GUILDERS							
Fortis Bank	500	5.25	98.40R	Jun 1998	0.425R	+37(f)	MeesPierson

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Fungible upon Emu with domestic escudo bond to be auctioned on Monday. b) Issuer may redeem DM10,000 bonds at par or 75 Deutsche Bank shares. c) 3-mth Libor flat. d) Dollar constraint clause. e) Callable on 5/6/01 at 122%. Redeemed at par + performance of Mib-30 index. f) Over interpolated yield. l) Long 1st coupon. r) Recommended re-offer. s) Short 1st coupon.

NEWS DIGEST

INVESTMENT BANKING

MC Securities sells Czech and Polish operations

MC Securities, the business set up by Hans-Joerg Rudloff, a former chairman of European investment bank Credit Suisse First Boston, has taken a further step towards dissolution with agreements to sell its Czech and Polish operations.

Mr Rudloff confirmed that MC's Patria, a leading Czech investment bank, is to be sold to Kredietbank Luxembourg. Meanwhile its Polish business, MC Concordia, is likely to be sold to Banque Nationale de Paris.

The moves were sparked by the takeover of MC's largest shareholder, Banque Bruxelles Lambert, by ING Barings, since there was considerable overlap between the businesses.

MC recently announced the sale of its largest business, a 60 per cent stake in Moscow-based United City Bank, to Flemings. Mr Rudloff this week agreed to join Barclays Capital as chairman of its executive committee. Simon Davies

DERIVATIVES

Nymex plans coal contract

The New York Mercantile Exchange, the largest of the Manhattan-based futures markets, could start trading the first coal contract by late-1998, after receiving formal approval for the product from the Commodity Futures Trading Commission. The contract would be based on low-sulfur coal from the Appalachians, with the size set at 37,200 British thermal units and delivery by barge on the Ohio/Big Sandy rivers.

The proposed contract has been developed in response to the increasing deregulation of the US power industry – with the intention being to augment a growing array of electricity futures contracts being offered by US futures exchanges.

The contract has also been facilitated by the way coal is purchased. In the past, the price tended to be set by long-term contracts between producers and users, such as the electricity companies. Increasingly, however, more trade is done on the basis of spot prices. Coal remains the source of more than half the power produced by electricity companies in the US. Nikki Tait, Chicago

LIFFE FUTURES

Slow start for Eurotop 100

The London International Financial Futures and Options Exchange yesterday shrugged off an anaemic first day of trading for the future on the Eurotop 100 contract. The future, which saw a turnover of just 73 contracts, is aimed at European fund managers preparing for European monetary union. Officials at Liffe, which will face a competitor contract when its European rivals launch a future on the Stoxx 50 next month, say they expect demand to pick up in the final quarter of 1998. In tandem with Liffe, the Amsterdam Exchange yesterday launched an option on the Eurotop 100. Edward Luce

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

May 12	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.6091	5.00	+0.02	-0.03	+0.12	-1.35
	10/07	10.000	130.7381	5.69	+0.06	-0.02	+0.15	-1.98
Austria	09/99	7.000	103.6152	4.16	+0.01	-	+0.03	+0.29
	07/07	5.625	103.6500	5.11	+0.04	+0.04	+0.18	-0.61
Belgium	01/00	4.000	99.6400	4.21	-	-0.03	+0.09	+0.59
	03/07	6.250	107.9200	5.12	+0.05	+0.05	+0.19	-0.69
Canada	09/99	4.750	99.4500	5.18	-0.01	+0.01	+0.34	+0.50
	06/07	7.250	112.6000	5.45	-0.02	+0.05	+0.22	-1.09
Denmark	12/99	6.000	101.8000	4.76	+0.06	-0.03	+0.36	+0.81
	11/07	7.000	112.1800	5.33	+0.05	+0.01	+0.27	-0.98
Finland	01/99	11.000	104.5345	3.88	+0.03	+0.03	+0.13	+0.19
	04/06	7.250	114.1390	5.04	+0.04	+0.05	+0.21	-1.06
France	01/00	4.000	99.7500	4.15	+0.05	-0.03	+0.06	+0.51
	10/04	6.750	110.5800	4.80	+0.04	+0.02	+0.16	-0.32
	10/07	5.500	103.1800	5.06	+0.04	+0.05	+0.19	-0.52
	10/25	6.000	105.3000	5.61	+0.06	+0.09	+0.22	-0.84
Germany	09/99	4.000	99.9800	4.00	+0.01	-0.04	+0.03	+0.48
	11/04	7.500	114.4300	4.85	+0.03	+0.02	+0.17	-0.37
	07/07	6.000	106.7500	5.06	+0.06	+0.07	+0.21	-0.64
	07/27	6.500	112.6900	5.60	+0.04	+0.08	+0.21	-0.87
Ireland	04/99	6.250	101.0000	5.03	+0.05	-0.03	+0.21	-0.85
	08/06	8.000	118.2500	5.22	+0.03	+0.05	+0.21	-1.35
Italy	05/00	6.000	102.6900	4.57	+0.05	-0.01	+0.06	-2.00
	05/02	6.250	105.2000	4.80	+0.04	-0.01	+0.09	-2.02
	07/07	6.750	111.1300	5.20	+0.04	+0.03	+0.16	-2.11
	11/26	7.250	121.4900	5.71	+0.05	+0.06	+0.18	-2.16
Japan	03/00	6.400	110.9900	0.39	-0.01	-0.08	-0.16	-0.86
	12/02	4.800	117.4800	0.90	-0.03	-0.13	-0.29	-1.11
	09/05	3.000	111.4000	1.36	-0.04	-0.14	-0.31	-1.23
	09/17	3.000	112.0700	2.23	-0.03	-0.12	-0.29	-1.04
Netherlands	11/99	7.500	104.7800	4.12	+0.01	-0.05	+0.02	+0.43
	02/07	5.750	105.0200	5.02	+0.05	+0.05	+0.19	-0.55
New Zealand	02/00	6.500	98.1112	7.67	+0.02	-0.06	-0.26	+0.17
	11/06	8.000	107.2527	6.84	+0.03	+0.03	-0.06	-0.82
Norway	01/99	9.000	103.0100	4.54	+0.04	+0.05	+0.22	+0.58
	01/07	6.750	108.6300	5.47	+0.05	+0.08	+0.26	-0.54
Portugal	03/99	8.500	103.4914	4.22	+0.04	-0.05	+0.03	-1.20
	02/07	6.625	110.0700	5.17	+0.05	+0.08	+0.20	-1.30
Spain	07/99	7.400	103.5900	4.27	+0.06	+0.04	+0.06	-0.91
	03/07	7.350	115.2100	5.17	+0.05	+0.06	+0.19	-1.39
Sweden	01/99	11.000	104.0580	4.71	+0.03	-0.05	+0.05	-0.07
	08/07	8.000	119.4700	5.28	+0.03	+0.01	+0.12	-1.72
Switzerland	03/00	5.000	105.4300	1.93	+0.03	-0.01	+0.03	+0.19
	06/07	4.500	110.7000	3.13	+0.06	-0.05	+0.18	-0.37
UK	08/99	6.000	99.2266	6.65	+0.01	+0.06	+0.08	+0.03
	11/04	6.750	104.2266	5.96	+0.03	+0.06	+0.11	-0.95
	12/07	7.250	108.7891	5.90	+0.03	+0.08	+0.15	-1.06
	06/21	8.000	127.2500	5.84	+0.05	+0.08	+0.17	-1.22
US	10/99	5.625	99.9688	5.65	-	+0.03	+0.11	-0.98
	11/04	7.875	111.1250	5.80	-0.02	+0.05	+0.15	-0.70
	08/07	6.125	102.0470	5.83	-0.01	+0.07	+0.17	-0.83
	08/27	6.375	104.5000	6.04	-0.04	+0.03	+0.13	-0.85
ECU	01/00	4.000	99.5600	4.26	+0.04	-0.04	+0.11	+0.08
	04/07	5.500	102.8500	5.09	+0.06	+0.04	+0.16	-0.94

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

May 12	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.69	+0.66	-0.08	New Zealand	6.84	+1.81	+1.07
Austria	5.15	+0.12	-0.62	Norway	5.53	+0.50	-0.24
Belgium	5.18	+0.15	-0.59	Portugal	5.19	+0.16	-0.58
Canada	5.45	+0.42	-0.32	Spain	5.21	+0.18	-0.56
Denmark	5.34	+0.31	-0.43	Sweden	5.32	+0.29	-0.45
Finland	5.13	+0.10	-0.64	Switzerland	3.13	-1.90	-2.64
France	5.10	+0.07	-0.67	UK	5.87	+0.84	+0.10
Germany	5.03	-	-0.74	US	5.77	+0.74	-
Ireland	5.23	+0.20	-0.54	ECU	5.15	+0.12	-0.62
Italy	5.29	+0.26	-0.48				
Japan	1.36	-3.67	-4.41				
Netherlands	5.07	+0.04	-0.70				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

May 12	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	97.7235	7.70	+0.04	-0.14	+2.00
Poland	07/04	7.125	BBB-	102.1989	6.68	+0.04	+0.32	+0.98
Russia	06/07	10.000	BB-	93.8500	11.08	+0.16	+0.23	+5.32
LATIN AMERICA								
Argentina	09/27	9.750	BB	94.2500	10.37	+0.08	+0.33	+4.35
Brazil	05/27	10.125	BB-	94.2500	10.78	+0.09	+0.48	+4.76
Mexico	05/26	11.500	BB	118.7500	9.56	-0.01	+0.25	+3.56
ASIA								
China	07/06	7.750	BBB+	104.0702	7.07	+0.04	+0.11	+1.32
Philippines	10/16	8.750	BB+	94.0963	9.43	+0.04	+0.24	+3.56
Thailand	04/07	7.750	BBB-	94.5949	8.64	+0.04	-0.24	+2.88
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	101.9768	8.06	+0.04	+0.13	+2.44
South Africa	10/06	8.375	BB+	102.7046	7.91	+0.04	+0.14	+2.16
Turkey	09/07	10.000	B	101.6957	9.70	+0.04	+0.18	+3.94
BRADY BONDS								
Argentina	03/23	5.500	BB	74.6300	8.44	+0.05	+0.23	+2.47
Brazil	04/14	5.000	BB-	79.7500	9.94	+0.07	+0.62	+4.08
Mexico	12/19	6.250	BB	83.1300	7.89	+0.06	+0.24	+1.98
Venezuela	03/20	6.750	B+	83.5000	8.41	+0.01	+0.37	+2.48

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	102.87	102.86	-0.38	102.88	102.75	88,256	84,674
Sep	102.41	102.39	-0.39	102.41	102.41	206	3,955

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jun	Calls Sep	Calls -	Puts Jun	Puts Sep	Puts -
102	1.33	1.45	-	0.15	0.74	-
103	0.61	0.90	-	0.43	1.17	-
104	0.19	0.51	-	1.01	1.77	-
105	0.04	0.25	-	1.85	2.50	-

Est. vol. total, Calls 13,348 Puts 15,924. Previous day's open int., Calls 54,178 Puts 45,776.

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	106.67	106.50	-0.33	106.70	106.35	70547	148584
Sep	106.31	106.07	-0.37	106.31	106.00	986	3786

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jun	Calls Jul	Calls Aug	Calls Sep	Puts Jun	Puts Jul	Puts Aug	Puts Sep
10650	0.28	0.39	0.60	0.72	0.28	0.82	1.03	1.15
10700	0.08	0.22	0.41	0.53	0.58	1.15	1.34	1.46
10750	0.02	0.12	0.27	0.38	1.02	1.55	1.70	1.81

Est. vol. total, Calls 20869 Puts 26010. Previous day's open int., Calls 202420 Puts 233334

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	104.80	104.80	-0.03	104.82	104.70	114,166	258,050
Sep	104.56	104.66	-0.15	104.58	104.56	405	11,817

NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	104.74	104.73	-0.13	104.74	104.70	400	446
Sep	-	104.56	-0.13	-	-	0	0

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	118.48	118.26	-0.34	118.52	118.08	43346	123280
Sep	118.70	118.72	-0.36	118.80	118.57	681	10387

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Jul	Puts Jun	Puts Jul
11800	0.43	1.04	0.17	0.32
11850	0.17	0.73	0.41	0.51
11900	0.05	0.49	0.79	0.77

Est. vol. total, Calls [illegible] Puts [illegible]. Previous day's open int., Calls [illegible] Puts [illegible]

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	108.29	108.13	-0.33	108.30	107.98	72,321	98,475
Sep	-	107.88	-0.35	-	-	-	808

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	102.86	102.84	-0.02	102.95	102.75	298	9965
Sep	-	104.19	-0.02	-	-	0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	108.26	108.14	-0.28	108.28	108.04	98308	218132
Sep	108.29	108.29	-0.26	108.31	108.29	28	305

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Puts Jul	Puts Aug	Puts Sep
10800	0.87	1.11	1.30	0.58	0.82	1.01
10850	0.62	0.85	1.05	0.83	1.07	1.26
10900	0.42	0.65	0.83	1.13	1.36	1.54

Est. vol. total, Calls [illegible] Puts [illegible]. Previous day's open int., Calls [illegible] Puts [illegible]

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	119-04	119-07	+0-03	119-13	118-02	277,160	593,781
Sep	118-28	118-31	+0-03	119-05	118-26	6,481	103,345
Dec	118-20	118-22	+0-04	118-28	118-20	8,810	43,380

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	132.70	132.68		132.75	132.66	3059	n/a
Sep	132.68	132.65		132.71	132.64	1591	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	102.52	102.62	-0.34	-	-	36	5,013

US CORPORATE BONDS

May 11	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	103.8868	6.16	+0.06	+0.11	+0.45
NY Tel	08/25	7.00	A+	98.2120	7.14	+0.05	+0.12	+1.10
CWE	05/08	8.00	BBB	109.6611	6.66	+0.06	+0.18	+0.88
FINANCIALS								
GECC	05/07	8.75	AAA	116.4243	6.33	+0.06	+0.19	+0.55
Banc One	08/02	7.25	A+	103.5135	6.28	+0.07	+0.12	+0.57
US West	01/07	7.30	BBB+	106.8116	6.26	+0.27	-0.18	+0.48
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB	100.0132	6.22	+0.03	+0.07	+1.03
Wal Mart	05/02	6.75	AA	102.1172	6.14	+0.05	+0.12	+0.43
Dayton Hud	06/21	9.70	BBB+	130.6256	7.00	+0.07	+0.16	+0.96
AGENCIES								
FHLMC	04/07	7.14	N/A	107.0862	6.09	+0.05	+0.18	+0.31
SLMA	03/00	7.50	N/A	102.8593	5.81	+0.05	+0.15	+0.17
FNMA	02/18	8.95	N/A	129.2868	6.32	+0.06	+0.16	+0.28
FFCB	06/05	8.95	N/A	118.4580	6.02	+0.05	+0.18	+0.24
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.8750	0.00	-	-	-
AK Stl	12/01	9.13	BB-	105.7500	0.00	-	-	-
Pacalla	06/04	10.75	B-	103.0300	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	5.64
Broker loan rate	7¼	Two month	-	Three year	5.66
Fed.funds	5½	Three month	5.13	Five year	5.69
Fed.funds at intervention	-	Six month	5.37	10-year	5.76
		One year	5.46	30-year	6.03

INTERNATIONAL BONDS

May 12	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	104.5600	5.09	+0.04	+0.20	+0.03
Spain	01/07	5.750	AA	104.0200	5.16	+0.06	+0.21	+0.10
Philip Morris	03/04	5.375	A	101.0600	5.16	+0.04	+0.16	+0.35
Finland FRN	09/02	3.570	AA	100.6113	4.10	+0.04	+0.13	-0.45
EURO FFR								
Austria	01/04	5.500	AAA	103.3800	4.80	+0.03	+0.13	+0.05
Abbey Nat	02/04	6.000	AA	105.3800	4.90	+0.03	+0.11	+0.15
Cred Foncier	02/04	8.125	A	119.6600	5.09	+0.02	+0.13	+0.34
SCF FRN	12/01	3.625	AA-	99.8104	4.29	+0.03	+0.12	-0.13
EURO LIRA								
EIB	02/07	7.000	AAA	112.3500	5.20	+0.04	+0.11	-0.02
Abbey Nat	02/02	6.800	AA	106.5000	4.86	+0.03	+0.05	+0.04
Walt Disney	06/00	8.625	A	107.3800	4.84	+0.03	-0.02	+0.24
EIB FRN	03/01	5.356	AAA	100.0948	4.46	+0.05	+0.10	-0.26
EURO £								
EIB	12/07	7.625	AAA	109.9872	6.20	+0.03	+0.13	+0.27
Dresdner Bk	12/07	7.750	AA-	107.1798	6.70	+0.03	+0.14	+0.77
British Gas	03/00	7.625	A+	101.1563	6.93	-	+0.02	+0.47
Abbey Nat FRN	02/02	7.713	AA	99.9428	6.10	-	+0.07	-0.04
EURO $								
EIB	04/07	7.250	AAA	107.5800	6.12	+0.03	+0.16	+0.36
ABN Amro	06/07	7.125	AA-	104.2316	6.50	+0.04	+0.20	+0.74
Quebec	01/07	7.000	A+	103.6077	6.45	+0.04	+0.16	+0.69
Citicorp FRN	02/04	5.734	A+	99.8248	5.77	+0.03	-0.12	+0.05
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	119.2778	5.73	+0.04	+0.12	+0.14
Toronto	05/04	8.500	AA+	113.8975	5.71	+0.04	+0.18	+0.12
Bell Canada	07/99	10.625	A+	105.4397	5.64	+0.03	+0.19	+0.95
Deutsche B FRN	09/02	5.875	AAA	101.1567	5.57	+0.03	+0.14	+0.07
EURO YEN								
World Bank	03/02	5.250	AAA	116.9522	0.77	-0.02	-0.28	+0.17
Spain	03/02	5.750	AA	118.8000	0.78	-0.03	-0.28	+0.18
Cred Foncier	08/02	4.750	A	113.9821	1.33	-0.02	-0.18	+0.73
Italy FRN	07/99	0.711	AA	100.3458	0.09	-0.02	-0.07	-0.11

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Tue May 12	Day's change %	Mon May 11	Accrued interest	xd adj. ytd
1 Up to 5 years (18)	119.95	0.00	119.95	2.28	3.89
2 5-15 years (20)	163.73	-0.17	164.20	3.49	2.79
3 Over 15 years (5)	203.33	-0.39	204.13	4.43	1.99
4 Irredeemables (4)	254.45	-0.82	256.56	5.36	2.21
5 All stocks (47)	155.62	-0.17	155.87	3.22	3.21

UK Indices

	Low coupon yield May 12	May 11	Yr. ago	Medium coupon yield May 12	May 11	Yr. ago	High coupon yield May 12	May 11	Yr. ago
5 yrs	6.02	6.01	6.89	6.12	6.11	6.95	6.13	6.11	7.01
15 yrs	5.86	5.82	7.05	5.88	5.84	7.08	5.99	5.94	7.08
20 yrs	5.85	5.81	7.10	5.87	5.83	7.09	5.89	5.94	7.08
Irred.†	5.98	5.94	7.24						

Index-linked: Inflation 5% / Inflation 10% [illegible]

FT Fixed Interest Indices

	May 12	May 11	May 8	May 7	May 6	Yr ago	High*	Low*
Govt. Secs. (UK)	104.26	104.52	104.59	104.37	104.85	97.23	105.60	93.31
Fixed Interest	141.06	141.36	141.25	142.41	142.47	121.02	142.87	115.32

[illegible]

UK GILTS PRICES

[illegible]

Investors take courage and sell yen

MARKETS REPORT

By Simon Kuper and Richard Adams

Investors sold the yen yesterday, taking the risk that the Bank of Japan would intervene for its currency.

The bad news from Japan never seems to end. Yesterday a ministry of finance official admitted that adopting US reporting standards would probably raise the total of bad loans in the banking sector by 30 per cent. Wholesale prices for April fell 2.7 per cent on last year, and Japanese benchmark bond yields hit a record low of 1.3 per cent. Japan's Economic Planning Agency said conditions were becoming more severe. Marc Chandler, senior currency economist at Deutsche Morgan Grenfell in New York, noted talk that in the next week Japanese investment trusts would be raising Y1,500bn and sending half of it abroad.

The dollar therefore rose Y1.1 against the yen to close in London at Y133.8. Patricia Elbaz, technical analyst at S & P's MMS in London, said the dollar's break above Y133.5 was crucial. Investors had expected the Bank of Japan to intervene when the yen fell to that level, as it had done on Good Friday. But the bank was invisible yesterday. The dollar's next target was now its year-high of Y135.40, Ms Elbaz said. The D-Mark gained Y0.71 against the yen to Y75.41, its peak since October 1996.

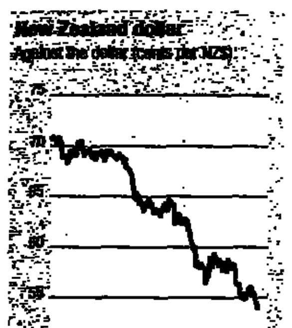
■ George Soros, the hedge fund manager, has been buying options to sell the pound at DM2.65 and DM2.70 against the D-Mark, a newspaper reported yesterday.

The phrase "Soros has been in the market" has long been regarded as an excellent device for moving currencies. For years after Mr Soros made $1bn from selling the pound on Black Wednesday in 1992, it worked. Everyone wanted whatever Mr Soros was having. But in recent years the phrase has ceased to have much effect. It has been overused, and furthermore Mr Soros has shown less of a golden touch lately.

The report that Mr Soros had been selling pounds again certainly caused a frisson among the few traders who can remember 1992. However, sterling suffered only very briefly, and ended the day slightly higher at DM2.900 to the D-Mark. Investors were wary of being caught short of the currency ahead of today's Bank of England Inflation Report and rash of economic data.

■ POUND IN NEW YORK

May 12	—Latest—	— Prev. close —
£ spot	1.6345	1.6295
1 mth	1.6320	1.6269
3 mth	1.6275	1.6225
1 yr	1.6122	1.6073



■ The Australian and New Zealand dollars sank again yesterday. The former fell to $0.6325 against the US dollar, just above a 12-year low, while the New Zealand dollar hit $0.536. Both currencies are victim to high current account deficits and the recent revival in the Asian crisis. The Australian budget yesterday included the first budget surplus in nearly a decade, but cut forecasts of economic growth.

By selling the Kiwi dollar, the market has anticipated a dramatic monetary easing by New Zealand's central bank. The currency's fall has dragged the Monetary Conditions Index 150 points below the Reserve Bank of New Zealand's central target of 500 for the second quarter. The index aggregates the exchange rate and short-term interest rates. Most analysts expect a new target about 200 points lower when the RBNZ makes its quarterly monetary policy statement on May 26.

The bank's only alternative would be to raise interest rates to about 10 per cent – and even that might not support the Kiwi. "Higher rates will be seen as incompatible with the current state of the domestic economy," said Paul Meggyesi at DMG in London.

Mr Meggyesi said the MCI strategy had produced sharp swings in the currency whenever the bank has moved to change monetary policy.

■ Mahathir Mohamad, the Malaysian prime minister who hates currency traders, said yesterday: "I don't feel anything about it (the ringgit) any more because it does not belong to us, it belongs to the people who can push it up."

When the ringgit plunged last year, Dr Mahathir would speak of regulating the currency market. But yesterday he said the global market "is the system that is in place now," implying some sort of acceptance.

■ OTHER CURRENCIES

May 12	£	$
Czech Rp	53.0384 - 53.1196	32.4640 - 32.4950
Hungary	342.669 - 342.980	209.750 - 209.800
Iran	4904.10 - 4901.10	3000.00 - 3000.00
Kuwait	0.4984 - 0.4989	0.3057 - 0.3058
Peru	4.6430 - 4.6491	2.8420 - 2.8440
Poland	5.5268 - 5.5367	3.3850 - 3.3870
Russia	10.0375 - 10.0489	6.1440 - 6.1460
U.A.E.	6.0003 - 6.0046	3.6728 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

May 12		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.4082	+0.0263	979 - 185	20.4582	20.3258	20.3395	4.0	20.2198	3.7	19.7607	3.2	103.1
Belgium	(BFr)	59.8281	+0.0702	771 - 791	59.9690	59.4360	59.6326	3.9	59.2821	3.7	57.9343	3.2	102.6
Denmark	(DKr)	11.0475	+0.0114	425 - 525	11.0733	11.0028	11.0221	2.8	10.9748	2.6	10.7831	2.4	104.8
Finland	(FM)	8.8116	+0.0083	048 - 184	8.8320	8.7810	8.7833	3.9	8.7332	3.8	8.5385	3.1	80.7
France	(FFr)	9.7252	+0.0134	197 - 306	9.7501	9.6632	9.6929	4.1	9.6339	3.8	9.4131	3.2	106.0
Germany	(DM)	2.9002	+0.0036	988 - 016	2.9081	2.8876	2.8904	4.0	2.8731	3.7	2.8077	3.2	104.1
Greece	(Dr)	503.840	+0.39	441 - 240	507.096	498.919	506.142	-5.5	510.245	-5.1	523.336	-3.9	59.6
Ireland	(I£)	1.1507	-0.0006	493 - 520	1.1546	1.1469	1.1498	1.0	1.1473	1.2	1.1279	2.0	94.8
Italy	(L)	2860.42	+4.03	832 - 252	2868.49	2847.57	2855.51	2.1	2843.53	2.4	2783.91	2.7	76.0
Luxembourg	(LFr)	59.8281	+0.0702	771 - 791	59.9690	59.4360	59.6326	3.9	59.2821	3.7	57.9343	3.2	102.6
Netherlands	(Fl)	3.2681	+0.0042	664 - 697	3.2766	3.2547	3.2572	4.0	3.2378	3.7	3.1635	3.2	102.0
Norway	(NKr)	12.1331	+0.0221	253 - 409	12.1502	12.0525	12.0878	3.5	12.0371	3.2	11.829	2.5	96.5
Portugal	(Es)	296.673	-0.178	517 - 829	297.756	295.889	295.911	3.1	294.359	3.1	287.733	3.0	91.8
Spain	(Pta)	246.299	+0.24	019 - 578	246.990	245.390	245.651	3.2	244.436	3.0	239.101	2.9	76.9
Sweden	(SKr)	12.4333	-0.0005	254 - 412	12.4588	12.3903	12.4028	2.9	12.3461	2.7	12.1424	2.3	87.9
Switzerland	(SFr)	2.4205	+0.0016	189 - 220	2.4295	2.4117	2.4083	6.0	2.3857	5.8	2.2967	5.1	105.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	103.1
Ecu	-	1.4731	+0.0017	722 - 740	1.4761	1.4681	1.4681	3.3	1.4617	3.1	1.4304	2.9	-
SDR†	-	1.215850	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6339	+0.0036	334 - 344	1.6357	1.6293	-	-	-	-	-	-	-
Brazil	(R$)	1.8725	+0.0045	717 - 732	1.8739	1.8668	-	-	-	-	-	-	-
Canada	(C$)	2.3403	+0.0037	391 - 414	2.3423	2.3330	2.3351	2.7	2.3284	2.4	2.295	1.9	82.5
Mexico	(New Peso)	13.8768	+0.0746	652 - 884	13.8912	13.8265	14.013	-11.8	14.3077	-12.4	15.598	-12.4	-
USA	($)	1.6342	+0.0037	337 - 347	1.6360	1.6285	1.6317	1.8	1.6273	1.7	1.6119	1.4	109.7
Pacific/Middle East/Africa													
Australia	(A$)	2.5782	+0.0093	764 - 800	2.5800	2.5584	2.573	2.4	2.5625	2.4	2.5202	2.2	84.0
Hong Kong	(HK$)	12.6642	+0.0288	595 - 688	12.6767	12.6254	12.6717	-0.7	12.6877	-0.7	12.9431	-2.2	-
India	(Rs)	64.9881	+0.1512	641 - 120	65.0750	64.8058	-	-	-	-	-	-	-
Israel	(Shk)	6.0091	+0.0199	994 - 188	6.0188	5.9884	-	-	-	-	-	-	-
Japan	(Y)	218.713	+2.329	573 - 854	218.854	216.510	217.398	7.2	214.828	6.9	204.443	6.5	115.4
Malaysia	(M$)	6.3487	+0.04	306 - 508	6.3588	6.1721	6.4411	-19.0	6.5172	-11.1	6.883	-8.6	-
New Zealand	(NZ$)	3.0424	+0.0238	394 - 453	3.0453	3.0249	3.0471	-1.9	3.0554	-1.7	3.0863	-1.4	94.9
Philippines	(Peso)	64.1425	-0.507	143 - 707	64.5707	63.7143	64.6298	-9.1	65.5984	-9.0	69.9848	-9.1	-
Saudi Arabia	(SR)	6.1292	+0.0138	272 - 311	6.1358	6.1118	6.1222	1.4	6.1105	1.2	6.072	0.9	-
Singapore	(S$)	2.6842	+0.0354	817 - 866	2.6909	2.6337	2.6923	-3.6	2.6948	-1.6	2.7069	-0.9	-
South Africa	(R)	8.2911	+0.0367	861 - 961	8.2961	8.2618	8.3449	-7.8	8.4252	-6.5	8.7809	-5.7	-
South Korea	(Won)	2268.27	+1.06	941 - 714	2278.62	2269.89	-	-	-	-	-	-	-
Taiwan	(T$)	54.4679	+0.3353	185 - 172	54.5172	54.1802	54.5883	-2.7	54.7331	-1.9	55.298	-1.5	-
Thailand	(Bt)	63.9253	+0.4776	425 - 081	63.5081	62.7930	64.615	-24.4	65.7416	-15.3	71.7923	-13.3	-

† Rates for May 11. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the Internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 12		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.4882	-0.0122	857 - 907	12.5120	12.4510	12.4648	2.2	12.4263	2.0	12.2572	1.8	102.8
Belgium	(BFr)	36.6100	-0.04	900 - 300	36.6800	36.4300	36.545	2.1	36.4305	2.0	35.9425	1.8	102.5
Denmark	(DKr)	6.7602	-0.0083	592 - 612	6.7736	6.7424	6.7542	1.1	6.743	1.0	6.6855	1.1	104.2
Finland	(FM)	5.3920	-0.0071	895 - 945	5.4024	5.3800	5.3825	2.1	5.3671	1.9	5.298	1.7	80.2
France	(FFr)	5.9510	-0.0053	495 - 525	5.9653	5.9313	5.9397	2.3	5.9202	2.1	5.838	1.9	105.5
Germany	(DM)	1.7747	-0.0018	744 - 750	1.7781	1.7698	1.7713	2.3	1.7656	2.1	1.7417	1.9	103.7
Greece	(Dr)	308.310	-0.46	160 - 460	310.530	305.860	310.245	-7.5	313.48	-6.7	324.635	-5.3	59.5
Ireland	(I£)	1.4203	+0.004	190 - 215	1.4230	1.4158	1.4192	0.9	1.4186	0.5	1.43	-0.7	-
Italy	(L)	1750.35	-1.5	960 - 110	1753.40	1745.46	1748.98	0.3	1747.45	0.7	1727	1.3	75.7
Luxembourg	(LFr)	36.6100	-0.04	900 - 300	36.6800	36.4300	36.545	2.1	36.4305	2.0	35.9425	1.8	102.5
Netherlands	(Fl)	1.9998	-0.002	994 - 002	2.0042	1.9945	1.9961	2.3	1.9896	2.0	1.9627	1.9	101.8
Norway	(NKr)	7.4245	-0.0033	220 - 270	7.4335	7.3980	7.4139	1.7	7.3974	1.5	7.3377	1.2	95.9
Portugal	(Es)	181.540	-0.52	500 - 580	182.270	181.380	181.347	1.3	180.892	1.4	178.54	1.7	92.5
Spain	(Pta)	150.715	-0.195	590 - 840	151.010	150.380	150.548	1.3	150.205	1.4	148.34	1.6	76.6
Sweden	(SKr)	7.6082	-0.0175	057 - 107	7.6232	7.5905	7.6012	1.1	7.5884	1.0	7.5328	1.0	87.6
Switzerland	(SFr)	1.4811	-0.0024	806 - 816	1.4875	1.4767	1.4757	4.4	1.4659	4.1	1.424	3.8	105.6
UK	(£)	1.6342	+0.0037	337 - 347	1.6360	1.6285	1.6316	1.9	1.6272	1.7	1.6116	1.4	103.7
Ecu	-	1.1094	+0.0012	090 - 097	1.1117	1.1076	1.1107	-1.5	1.1133	-1.4	1.1269	-1.6	-
SDR†	-	0.74209	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-0.0001	998 - 998	0.9998	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.1458	+0.0001	457 - 459	1.1459	1.1456	-	-	-	-	-	-	-
Canada	(C$)	1.4321	-0.001	318 - 323	1.4348	1.4309	1.4311	0.8	1.4296	0.7	1.4236	0.6	82.5
Mexico	(New Peso)	8.4915	+0.0265	870 - 960	8.4960	8.4870	8.586	-13.8	8.7925	-14.2	9.6765	-14.0	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	110.4
Pacific/Middle East/Africa													
Australia	(A$)	1.5777	+0.0022	770 - 783	1.5783	1.5681	1.5789	0.8	1.5743	0.9	1.5638	0.9	83.9
Hong Kong	(HK$)	7.7485	-	490 - 500	7.7508	7.7475	7.76	-1.6	7.7785	-1.5	7.997	-3.2	-
India	(Rs)	39.7675	+0.0025	650 - 700	39.7800	39.7650	-	-	-	-	-	-	-
Israel	(Shk)	3.6771	+0.0039	723 - 819	3.6819	3.6708	-	-	-	-	-	-	-
Japan	(Y)	133.835	+1.125	790 - 880	133.880	132.650	133.22	5.5	132.09	5.2	126.9	5.2	117.8
Malaysia	(M$)	3.8800	+0.0157	750 - 850	3.8850	3.7780	3.9625	-25.5	4.035	-16.0	4.29	-10.6	-
New Zealand	(NZ$)	1.8617	+0.0104	605 - 629	1.8629	1.8543	1.8648	-2.0	1.8702	-1.8	1.889	-1.5	-
Philippines	(Peso)	39.2500	-0.4	000 - 000	39.5000	39.0000	39.6805	-13.2	40.3605	-11.3	43.6245	-11.1	-
Saudi Arabia	(SR)	3.7506	-	505 - 506	3.7506	3.7505	3.7521	-0.5	3.7551	-0.5	3.7676	-0.5	-
Singapore	(S$)	1.6425	+0.018	415 - 435	1.6470	1.6135	1.648	-4.0	1.652	-2.3	1.6685	-1.6	-
South Africa	(R)	5.0735	+0.011	720 - 750	5.0750	5.0645	5.1148	-9.7	5.1765	-8.1	5.4333	-7.1	-
South Korea	(Won)	1388.00	-2.5	300 - 300	1397.00	1383.60	-	-	-	-	-	-	-
Taiwan	(T$)	33.3380	+0.13	108 - 500	33.3500	33.2190	33.415	-3.1	33.54	-2.5	34.03	-2.1	-
Thailand	(Bt)	38.7500	+0.285	500 - 500	38.8500	38.4600	40.2	-44.9	41.25	-25.8	45.25	-18.8	-

† SDR rate per $ for May 11. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 8: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

May 12	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅝	3¾	3¾	3⅞	4	6.00	2.75	–
France	3⅝	3½	3⅝	3⅞	3⅞	4.60	–	3.30
Germany	3¾	3½	3⅝	3⅞	3⅞	4.50	2.50	3.30
Ireland	5⅜	6¼	6⅛	5⅞	5½	–	–	6.75
Italy	5⅞	5⅜	4⅞	4⅝	4⅝	6.50	5.00	5.63
Netherlands	3⅝	3½	3½	3⅞	3⅞	–	2.75	3.30
Switzerland	1⅝	1⅜	1¼	1⅝	1½	–	1.00	–
US	5⅞	5⅝	5⅝	5⅝	5½	–	5.00	–
Japan	¼	½	⅜	¼	¼	–	0.50	–
■ $ LIBOR BBA London								
Interbank Fixing	–	5⅝	5⅝	5¾	5½	–	–	–
US Dollar CDs	–	5.42	5.45	5.48	5.58	–	–	–
ECU Linked Ds	–	4⅜	4⅜	4⅜	4⅜	–	–	–
SDR Linked Ds	–	3¾	3¾	3⅞	3⅞	–	–	–

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 12	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3⅞	4⅛ - 3⅞
Danish Krone	5 - 4	4⅜ - 4½	4⅜ - 4¼	4⅜ - 4⅜	4⅝ - 4⅜	4⅝ - 4⅝
German Mark	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅝	3¾ - 3⅝	3¾ - 3⅞	3⅞ - 3¾
Dutch Guilder	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅝	3⅞ - 3¾
French Franc	3¾ - 3⅝	3¾ - 3⅝	3⅝ - 3½	3⅝ - 3½	3⅞ - 3¾	3⅞ - 3⅞
Portuguese Esc.	4½ - 4¼	4⅝ - 4⅜	4⅝ - 4⅜	4⅝ - 4½	4¾ - 4½	4¾ - 4½
Spanish Peseta	4⅝ - 4½	4⅝ - 4½	4⅝ - 4½	4¾ - 4⅝	4¾ - 4⅝	4¾ - 4⅝
Sterling	7¼ - 6⅝	7⅜ - 7¼	7½ - 7⅜	7½ - 7⅜	7⅝ - 7½	7¾ - 7⅝
Swiss Franc	2½ - 1¾	1⅝ - 1½	1¾ - 1⅝	1⅝ - 1½	1⅝ - 1½	1⅝ - 1½
Canadian Dollar	4⅞ - 4⅝	4⅞ - 4¾	5 - 4⅞	5 - 4⅞	5⅛ - 5	5⅜ - 5¼
US Dollar	5⅝ - 5½	5⅝ - 5½	5⅝ - 5½	5¾ - 5⅝	5⅞ - 5¾	5⅞ - 5¾
Italian Lira	5⅝ - 5⅜	5½ - 5¼	5¼ - 5⅛	5 - 4⅞	4⅞ - 4¾	4¾ - 4⅝
Japanese Yen	½ - ⅜	⅝ - ⅜	½ - ⅜	½ - ⅜	½ - ⅜	⅝ - ½
Asian $Sing	4¾ - 4½	6½ - 5¾	6½ - 5¾	6 - 5¾	6 - 5¾	6 - 5½

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.32	96.33	+0.05	96.33	96.32	15,932	66,776
Sep	96.13	96.14	-0.02	96.14	96.13	3,745	37,243

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.290	96.300	-	96.305	96.290	26538	401260
Sep	96.140	96.135	-0.015	96.145	96.130	34610	395641
Dec	95.930	95.920	-0.015	95.930	95.910	30228	430860
Mar	95.780	95.780	-0.020	95.790	95.770	23417	356327

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
May	-	96.430	-	-	-	0	267
Jun	-	96.380	-	-	-	0	0

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.280	95.250	-0.050	95.290	95.240	26757	254491
Sep	95.770	95.730	-0.050	95.770	95.720	28484	262770
Dec	95.910	95.880	-0.040	95.910	95.870	12560	174568
Mar	95.770	95.770	-0.030	95.780	95.750	4515	201197

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.320	98.330	-0.010	98.350	98.280	16544	59536
Sep	98.120	98.120	-0.030	98.140	98.070	22265	46865
Dec	97.890	97.880	-0.030	97.910	97.840	6822	27881
Mar	97.750	97.790	-0.030	97.810	97.720	2064	10997

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	99.43	-0.01	-	-	0	n/a
Sep	-	99.45	-0.01	-	-	0	n/a
Dec	-	99.43	-0.01	-	-	0	n/a

* LIFFE futures also traded on APT

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.730	95.745	-0.015	95.750	95.730	34	12803
Sep	95.770	95.775	-0.015	95.790	95.750	10	17489
Dec	95.870	95.885	-0.015	95.890	95.870	24	7122
Mar		95.780	-0.020			0	5240

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
95375	0.040			0.165		
95500	0.025	0.280	0.420	0.275	0.050	0.040
95625	0.010			0.385		

Est. vol. total, Calls 1850 Puts 1520. Previous day's open int., Calls 330892 Puts 282972

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 12		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.26	4.848	1.923	4781	5.462	20.28	495.9	411.7	20.78	4.046	1.671	3.912	2.732	365.6	2.482
Denmark	(DKr)	54.16	10	8.803	2.625	1.042	2589	2.958	10.98	268.5	222.9	11.25	2.191	0.905	2.118	1.479	198.0	1.333
France	(FFr)	61.52	11.36	10	2.982	1.183	2941	3.360	12.48	305.1	253.3	12.78	2.489	1.028	2.406	1.680	224.9	1.515
Germany	(DM)	20.63	3.809	3.353	1	0.397	986.3	1.127	4.184	102.3	84.92	4.287	0.835	0.345	0.807	0.563	75.41	0.508
Ireland	(I£)	52.00	9.602	8.452	2.521	1	2486	2.840	10.55	257.8	214.1	10.81	2.104	0.869	2.034	1.420	190.1	1.280
Italy	(L)	2.092	0.386	0.340	0.101	0.040	100	0.114	0.424	10.37	8.611	0.435	0.085	0.035	0.082	0.057	7.646	0.052
Netherlands	(Fl)	18.31	3.380	2.976	0.887	0.352	875.3	1	3.713	90.78	75.37	3.804	0.741	0.306	0.716	0.500	66.92	0.451
Norway	(NKr)	49.31	9.105	8.015	2.390	0.948	2358	2.694	10	244.5	203.0	10.25	1.995	0.824	1.929	1.347	180.3	1.214
Portugal	(Es)	20.17	3.724	3.278	0.978	0.388	964.2	1.102	4.090	100	83.02	4.191	0.816	0.337	0.789	0.551	73.72	0.497
Spain	(Pta)	24.29	4.485	3.949	1.178	0.467	1161	1.327	4.926	120.5	100	5.048	0.983	0.406	0.950	0.664	88.80	0.598
Sweden	(SKr)	48.12	8.885	7.822	2.333	0.925	2301	2.628	9.759	238.6	198.1	10	1.947	0.804	1.882	1.314	175.9	1.185
Switzerland	(SFr)	24.72	4.564	4.018	1.198	0.475	1182	1.350	5.013	122.6	101.8	5.137	1	0.413	0.967	0.675	90.36	0.609
UK	(£)	59.83	11.05	9.725	2.900	1.151	2860	3.268	12.13	296.7	246.3	12.43	2.420	1	2.340	1.634	218.7	1.473
Canada	(C$)	25.56	4.720	4.155	1.239	0.492	1222	1.396	5.184	126.8	105.2	5.313	1.034	0.427	1	0.698	93.45	0.629
USA	($)	36.61	6.760	5.951	1.775	0.704	1750	2.000	7.425	181.5	150.7	7.608	1.481	0.612	1.432	1	133.8	0.901
Japan	(Y)	27.35	5.051	4.447	1.326	0.526	1308	1.494	5.548	135.6	112.6	5.685	1.107	0.457	1.070	0.747	100	0.674
Ecu	–	40.52	7.500	6.602	1.969	0.781	1942	2.219	8.237	201.4	167.2	8.441	1.643	0.679	1.589	1.109	148.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5642	0.5656	+0.0016	0.5662	0.5635	20,468	132,842
Sep	0.5678	0.5679	+0.0011	0.5687	0.5678	122	4,138
Dec	–	0.5710	+0.0015	0.5710	–	23	135

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6762	0.6788	+0.0027	0.6795	0.6755	9,062	58,716
Sep	0.6848	0.6857	+0.0027	0.6861	0.6848	284	1,516
Dec	–	0.6918	+0.0022	0.6925	–	7	52

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7567	0.7548	–0.0023	0.7575	0.7531	13,903	87,332
Sep	–	0.7640	–0.0027	–	0.7640	45	2,502
Dec	–	0.7770	–	–	–	41	246

■ STERLING FUTURES (IMM) $62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6270	1.6278	+0.0010	1.6330	1.6268	12,525	41,116
Sep	1.6210	1.6210	+0.0006	1.6260	1.6200	294	824
Dec	–	1.6170	+0.0028	1.6190	–	11	66

UK INTEREST RATES

LONDON MONEY RATES

May 12	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7¾ - 4	7⅜ - 7	7⅜ - 7¼	7⅝ - 7½	7⅝ - 7½	7⅝ - 7½
Sterling CDs	-	-	7½ - 7⅜	7⅝ - 7½	7⅝ - 7½	7¾ - 7⅝
Treasury Bills	-	-	7¼ - 7⅛	7¼ - 7⅛	-	-
Bank Bills	-	-	7¼ - 7⅛	7⅜ - 7¼	7⅜ - 7¼	-
Local authority deps.	7¼ - 7	7½ - 7¼	7⅜ - 7¼	7½ - 7⅜	7½ - 7⅜	7½ - 7⅜
Discount Market deps	7⅜ - 7¼	7¼ - 7⅛	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on May 8 6.9380pc. ECGD fixed rate Stg. Export Finance. Make up day Apr 30, 1998. Agreed rate for period May 26, 1998 to Jun 25, 1998, Scheme III 6.76pc. Reference rate for period Apr 1, 1998 to Apr 30, 1998, Schemes IV & V 7.327pc. Finance House Base Rate 8pc from May 1, 1998.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.570	92.565	-0.010	92.580	92.550	14337	183953
Sep	92.670	92.690	-	92.710	92.660	14051	107344
Dec	92.840	92.850	-	92.870	92.810	16898	122782
Mar	93.020	93.040	+0.010	93.050	92.990	14732	95099
Jun	93.210	93.230	-	93.250	93.190	6040	79534

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
92625	0.020			0.060		
92750	0.010	0.080	0.220	0.185	0.140	0.120
92875	0			0.310		

Est. vol. total, Calls 6731 Puts 2950. Previous day's open int., Calls 379440 Puts 274534

BASE LENDING RATES

	%
Adam & Company	7.25
Allied Irish Bank (GB)	7.25
•Henry Ansbacher	7.25
Banco Bilbao Vizcaya	7.25
Bank of Cyprus	7.25
Bank of Ireland	7.25
Bank of India	7.25
Bank of Scotland	7.25
Barclays Bank	7.25
Brit Bk of Mid East	7.25
•Brown Shipley & Co Ltd	7.25
Citibank NA	7.25
Clydesdale Bank	7.25
The Co-operative Bank	7.25
Coutts & Co	7.25
Cyprus Popular Bank	7.25
Duncan Lawrie	7.25
Exeter Trust Limited	8.25
Financial & Gen Bank	8.00
•Robert Fleming & Co	7.25
•Guinness Mahon	7.25
Habib Bank AG Zurich	7.25
•Hambros Bank	7.25
Heritable & Gen Inv Bk	7.25
C. Hoare & Co	7.25
Hongkong & Shanghai	7.25
Investec Bank (UK) Ltd	7.25
Julian Hodge Bank	7.25
•Leopold Joseph & Sons	7.25
Lloyds Bank	7.25
Midland Bank	7.25
NatWestminster	7.25
•Rea Brothers	7.25
Royal Bk of Scotland	7.25
Scottish Widows Bank	7.25
•Singer & Friedlander	7.25
•Smith & Williamson	7.25
Sun Bank	7.25
TSB	7.25
United Bank of Kuwait	7.25
Unity Trust Bank Plc	7.25
Whiteaway Laidlaw	7.25
Yorkshire Bank	7.25

• Members of London Investment Banking Association

* In administration

EMS EUROPEAN CURRENCY UNIT RATES

May 12	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	357.000	341.567	–0.978	–4.32	3.99	29
Ireland	0.796244	0.781397	–0.001041	–1.86	1.38	13
Italy	1957.61	1939.87	–1.1	–0.91	0.40	7
Spain	168.220	167.101	–0.061	–0.67	0.16	5
Denmark	7.54257	7.49335	–0.00294	–0.65	0.15	4
Portugal	202.692	201.510	–0.112	–0.58	0.08	4
France	6.63186	6.59595	–0.00333	–0.54	0.03	5
Finland	6.01125	5.97953	–0.00221	–0.53	0.02	4
Germany	1.97738	1.96696	–0.00109	–0.53	0.02	5
Austria	13.9119	13.8404	–0.0077	–0.51	0.01	4
Netherlands	2.22799	2.21655	–0.00134	–0.51	0.01	4
Belgium	40.7844	40.5772	–0.0225	–0.51	0.00	4
NON ERM MEMBERS						
UK	0.653644	0.680409	+0.002574	4.09	–4.42	–

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92 Sterling suspended from ERM. 16/3/98: Drachma joined ERM & Punt revalued by 3%. Other central rates adjusted. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS May	CALLS Jun	CALLS Jul	PUTS May	PUTS Jun	PUTS Jul
1.640	0.17	0.95	1.41	1.11	1.95	2.69
1.650	0.07	0.61	1.05	1.95	2.71	3.33
1.660	0.01	0.37	0.75	2.83	3.39	-

Previous day's vol., Calls 157 Puts 2,677. Prev. day's open int., Calls 15,145 Puts 14,475

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS May	CALLS Jun	CALLS Jul	PUTS May	PUTS Jun	PUTS Jul
0.560	0.39	0.78	1.03	0.11	0.42	0.61
0.565	0.12	0.51	0.78	0.35	0.66	0.85
0.570	0.05	0.33	0.57	0.72	0.97	1.14

Previous day's vol., Calls 530 Puts 2,325. Prev. day's open int., Calls 13,342 Puts 21,286

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.26	94.27	+0.02	94.27	94.25	36,021	449,515
Sep	94.21	94.22	+0.02	94.23	94.20	52,885	443,143
Dec	94.11	94.12	+0.02	94.13	94.10	57,992	371,840

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.91	94.92	–	94.92	94.91	981	2,102
Sep	–	94.90	+0.02	94.90	–	111	1,008
Dec	94.89	94.89	–	94.89	94.89	7	36

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS May	CALLS Jun	CALLS Jul	CALLS Sep	PUTS May	PUTS Jun	PUTS Jul	PUTS Sep
96375	0.010	0.010			0.085	0.085		
96500	0	0.005	0.010	0.010	0.200	0.205	0.375	0.375
96625	0	0			0.325	0.325		
96750	0	0	0	0	0.450	0.450	0.615	0.615

Est. vol. total, Calls 2500 Puts 7850. Previous day's open int., Calls 377778 Puts 455893

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
98500	0.050	0.050	0.050	0.220	0.430	0.680
98625	0.020			0.315		

Est. vol. total, Calls 3150 Puts 500. Previous day's open int., Calls 28908 Puts 10037

CONTRACTS & TENDERS

COMMODITIES & AGRICULTURE

Study says hedging played part in gold price fall

By Kenneth Gooding, Mining Correspondent

The dramatic growth in the use of hedging by gold producers in the past 10 years undoubtedly played a part in the fall in the price of the metal – which in December sank to its lowest for 18 years – according to a new study from the World Gold Council.

Ironically, the relatively low price has produced a growing consensus in the gold industry in favour of hedging in some form, the study suggests.

A year ago a successful hedge programme in most cases simply increased a producer's profitability, but today the survival of many gold mines depends on hedging, it points out.

The authors, Ian Cox, a former head of precious metals trading at Samuel Montagu, the UK merchant bank, and Ian Emsley, an economist and analyst with Anglo American Corporation of South Africa, say producers gradually realised gold prices were on an extended downward path last year and accelerated their hedging activities.

This resulted in an estimated additional 500 tonnes of gold supply reaching the market, roughly equivalent to all the new gold mined in South Africa, the biggest producer.

Hedging on this scale is not likely to be repeated in the short term, they say, partly because many new gold projects are being put back because of low prices.

Nevertheless, in the "longer term, the situation could be different as the development of low-cost gold projects will bring new volumes of hedging to the market at lower prices than are currently acceptable".

The growth of hedging was made possible by the increasing readiness of central banks to lend gold from their reserves to provide the liquidity for funding hedge transactions. In the past 10 years central bank lending has risen from an annual 400 tonnes to about 4,000 tonnes.

The WGC is a promotional organisation financed by some gold mining groups.

● Daily volume in the London gold market, the international settlement centre for gold bullion, fell by 10 per cent from the March level to 34.5m troy ounces in April, according to the London Bullion Market Association. The average daily value was also down, from $11.4bn to $10.6bn.

"Utilisation of borrowed gold by the mining industry – its development and future prospects" free from the WGC, 10 Haymarket, London SW1Y 4BP.

CFTC details copper scam

By Richard Wolffe in Washington

The most detailed explanation of how and why Yasuo Hamanaka, Sumitomo Corporation's senior copper trader, manipulated the international copper market was provided by the US Commodity Futures Trading Commission when it announced that the Japanese group would pay a record $133m to US and UK regulators.

The web of deception stretched back several years. The CFTC found that just before Mr Hamanaka's appointment as head of the copper team in 1987, Sumitomo had suffered large losses in speculative futures trading as well as actual copper purchases. To cover up these losses, Mr Hamanaka did not enter his trades in the normal book-keeping system, but instead recorded them in personal notebooks.

The CFTC said that by 1993 Mr Hamanaka agreed to buy copper from a newly-formed New York copper merchant on a monthly basis for three years. The agreements contained an unusual minimum price provision, which allowed both sides to profit from any rises in the market over the agreed minimum.

"Thus, as copper prices rose above the minimum price, the US firm and Sumitomo would share in the price appreciation, giving both firms a financial interest in higher prices," the CFTC said.

Sumitomo and the New York merchant said the copper purchases were made to satisfy customer demand. In fact, the CFTC found half the contracted copper was immediately sold by the US merchant back to its supplier, and was never delivered to Sumitomo.

Mr Hamanaka and the US merchant established several unusual accounts, known as B accounts. These allowed the US firm to trade in Sumitomo's name and use its credit in futures trades. Mr Hamanaka was found to have forged the signatures of his superiors to give power of attorney to the copper merchant over these trades.

By purchasing both physical metal and futures contracts, their plan was to push copper prices artificially high and profit by liquidating their positions. The aim, the CFTC said, was to buy all the stocks of deliverable copper in the London Metal Exchange warehouses.

When Mr Hamanaka confessed in the summer of 1996, Sumitomo's market dominance finally declined, and so did the price of copper, from $2,800 a tonne to less than $2,000.

Straitened times for the big Russian oil barons

Lower prices have made it hard to squeeze a profit from their vast oil fields, write **Chrystia Freeland** and **Robert Corzine**

The weight of governing Russia is settling on the shoulders of Sergei Kiriyenko, its 35-year-old prime minister, who was confirmed in office last month.

One of his biggest problems concerns his old cabinet portfolio, the energy sector, which has been battered by the decline in oil prices.

Triggered by influences as diverse as the Asian economic crisis and the unusually fine weather, oil prices have dropped steadily from highs of almost $25 a barrel in January last year.

The North Sea's Brent blend is now around $15 a barrel, although Urals blend, Russia's main export crude, has been trading at a $1.30 or so discount to Brent.

Oil price weakness has taken some of the swagger out of the strides Russian oil men have made into the global market. They have also deflated Russia's stock market and public finances.

"The government is losing fiscal revenue, the country is losing balance of trade support, and the companies are losing money and profits," says Stephen O'Sullivan, at United Financial Group, a Moscow-based brokerage.

Lower prices have been particularly painful for Russia's oil barons, who just a few years ago were bragging that with their massive crude reserves they would soon be taking over the oil multinationals. Many now find it all but impossible to squeeze a profit from their vast oil fields.

"The whole Russian oil industry is having a hard time," says John Browne, chief executive of British Petroleum, which last year took a stake in Sidanco, one of big integrated Russian oil companies.

Western oilmen say Russian companies will need to make deep cuts in their lifting costs per barrel to overcome low prices. But one of the main reasons why costs are so high is because Russian oil companies still maintain extensive social services in the areas in which they operate.

Some western estimates suggest Russian lifting costs can be as high as $8–$10 a barrel, compared with as little as $2.10 or so at western majors such as BP.

"For many large companies, 1998 will be a shock," a recent report on the Russian oil sector by Brunswick Warburg, a Moscow-based investment bank, argues. "1996 and 1997 were periods of very high world oil prices, which camouflaged Russian companies' high production and transportation costs . . . as export prices have declined, margins have all but been eliminated."

The latest sign of the oil squeeze came last week when Lukoil, widely regarded as Russia's best managed oil company, said the group's pre-tax profit this year could be 40 per cent lower than the previous forecast of $900m–$1bn.

Not all Russian oil companies are feeling the pain in equal measure. The slump in international oil prices has reversed the traditional relationship between export and domestic sales.

In the past, the domestic taxation and pricing system made exports more profitable than local sales, and they were made even more desirable by domestic consumers' tendency not to pay at all. But now, domestic sales have been somewhat sheltered from the global fall in crude oil prices.

"Some oil companies are suffering more than others," Mr O'Sullivan says. "Russian domestic crude prices really haven't changed in the past two months. It's the exporters who will lose out. The companies that refine in Russia are also somewhat protected."

Russian oil companies are also trying to insulate themselves from lower prices by pressuring the government to lower taxes.

Although some western economists, including experts from the International Monetary Fund, have argued that by world standards Russian oil producers are very lightly taxed, the Russian government has been inclined to bow to producers' complaints.

It has already halved oil transport charges and abolished transport excise tax.

Last Thursday, the new cabinet approved a bill cutting general excise duties until the end of the year, but did not reveal how deep the cuts had been.

However, as Mr O'Sullivan notes: "There is a limit on how helpful the government can be to the oil companies," especially as they still owe billions of dollars in taxes.

Although these are testing times for Russia's oil barons, some observers argue that the current price pressure might actually be a healthy shock to the system.

The harsher conditions could be just what Russian oil groups need to grow into world-class corporations.

Oil trade waits for direction from Opec

MARKETS REPORT

By Gary Mead

Crude oil futures climbed yesterday on the International Petroleum Exchange, with the June contract for Brent blend touching $15 a barrel in late trading, up 16 cents. But dealers said the price was likely to drift within a $14 to $15 range until clearer direction was given concerning Opec's intentions.

Ministers of the Organisation of Petroleum Exporting Countries are due to meet in Vienna on June 24, when they are expected to consider whether production cuts in addition to the 1.25m b/d agreed in March were needed to help restore prices, now about 30 per cent lower than last November.

On the London International Financial Futures Exchange cocoa futures performed strongly, the July contract closing up £19 to £1,140 a tonne, having touched £1,151 earlier.

Traders were bemused at the rally, which lacked any fundamental driving factor; investment funds were the main buyers in the market.

Coffee drooped on Liffe, ending $13 lower at $1,845 a tonne. Two large robusta coffee producers, Uganda and Vietnam, reported serious crop damage as a result of drought.

Uganda's 50 per cent drop in 1997-98 coffee exports to 2.6m 60kg bags was widely expected. Reports from Vietnam suggested the country's 1998-99 harvest in the two main coffee-producing provinces could be down by as much as 33.4 per cent, to 190,000 tonnes.

On the London Metal Exchange three-month copper finished marginally higher at $1,754 a tonne, up $28, but nickel again came under pressure, finishing down $90 at $5,080 a tonne.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1365.5-66.5	1392-93
Previous	1357-58	1383-84
High/low		1497/1484
AM Official	1361.5-62.5	1389-89.5
Kerb close		1497-98
Open int.	274,657	
Total daily turnover	57,725	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1267-72	1285-88
Previous	1258-63	1278-80
High/low		1288/1275
AM Official	1261-66	1280-85
Kerb close		1285-90
Open int.	6,959	
Total daily turnover	1,779	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	532.5-33.5	548-48.5
Previous	529.5-30.5	545-6
High/low		549/542
AM Official	531-1.5	546.5-7
Kerb close		549-50
Open int.	36,152	
Total daily turnover	8,961	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4980-90	5070-75
Previous	5125-35	5215-20
High/low		5170/5000
AM Official	5005-10	5090-100
Kerb close		5080-85
Open int.	52,100	
Total daily turnover	20,540	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5760-70	5695-700
Previous	5760-70	5700-05
High/low		5710/5690
AM Official	5790-800	5715-20
Kerb close		5705-10
Open int.	17,754	
Total daily turnover	5,304	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1066-67	1092-93
Previous	1072-73	1097-98
High/low		1103/1086
AM Official	1068.5-69	1093.5-94
Kerb close		1103-04
Open int.	82,075	
Total daily turnover	21,470	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1722.5-23.5	1736-37
Previous	1720-21	1733-34
High/low		1763/1730
AM Official	1744-45	1756-57
Kerb close		1754-55
Open int.	177,589	
Total daily turnover	96,498	

■ LME AM Official £/$ rate: 1.6303
LME Closing £/$ rate: 1.6345

Spot: 1.6347 3 mths: 1.6278 6 mths: 1.6213 9 mths: 1.6165

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	78.50	+1.10	79.00	77.50	472	1,540
Jun	78.95	+1.25	79.40	77.70	207	3,310
Jul	79.30	+1.30	79.80	78.00	7,765	24,925
Aug	79.30	+1.30	79.40	78.40	167	1,884
Sep	79.35	+1.35	79.80	78.30	414	6,555
Oct	79.20	+1.20	78.50	78.50	35	1,546
Total					18,948	61,653

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	297.80-298.30		
Opening	299.70-300.00		
Morning fix	299.90	183.594	444.152
Afternoon fix	299.35	183.089	442.292
Day's High	300.00-300.30		
Day's Low	298.35-298.65		
Previous close	300.90-301.40		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.43 6 months 4.02
2 months ....4.31 12 months 3.76
3 months 4.22

Silver Fix	p/troy oz.	US cts equiv.
Spot	354.75	578.75
3 months	357.15	580.25
6 months	357.60	578.75
1 year	357.75	575.80

Gold Coins	$ price	£ equiv.
Krugerrand	300-303	184-185
Maple Leaf	-	-
New Sovereign	70-72	43-44

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	298.0	-2.3			-	-
Jun	298.9	-2.3	301.9	297.9	24,517	64,146
Aug	301.1	-2.3	303.2	300.3	1,093	11,662
Oct	303.1	-2.3	304.8	302.5	26	5,120
Dec	305.1	-2.3	307.3	304.0	457	18,140
Feb	306.8	-2.3	307.9		466	9,441
Total					26,588	152,505

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	387.2	-2.3	392.0	385.0	2,428	11,552
Oct	384.7	-1.8	385.0	382.0	58	819
Jan	380.7	-1.8	-	-	4	46
Apr	378.2	-1.8	380.0	380.0	1	11
Total					2,488	12,429

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	332.85	+31.25	333.50	306.60	248	2,773
Sep	288.60	+9.00	288.60	282.80	101	1,461
Dec	279.60	+8.00	-	265.50	150	320
Total					499	4,554

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	554.0	-16.2	574.5	555.5	386	476
Jul	556.5	-16.7	579.0	550.0	17,335	45,297
Sep	559.0	-16.2	581.0	555.0	367	6,408
Dec	559.5	-15.7	581.0	553.0	637	12,536
Jan	559.6	-15.5	575.0	575.0	-	16
Mar	559.1	-15.2	575.0	575.0	3	2,613
Total					18,878	75,353

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	15.27	+0.10	15.35	15.11	54,128	65,567
Jul	15.98	+0.11	16.04	15.84	36,512	68,402
Aug	16.34	+0.05	16.43	16.27	14,518	47,769
Sep	16.63	+0.03	16.69	16.63	3,763	31,100
Oct	16.90	+0.08	16.94	16.84	2,176	21,238
Nov	17.02	+0.02	17.12	17.02	412	14,588
Total					119,774	498,806

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	15.17	+0.33	15.25	14.85	25,897	29,628
Jul	14.87	+0.18	14.96	14.72	29,550	82,510
Aug	15.08	+0.12	15.14	14.98	6,980	30,540
Sep	15.28	+0.08	15.36	15.22	3,097	14,409
Oct	15.46	+0.02	15.57	15.45	559	8,586
Nov	15.70	+0.09	15.75	15.63	960	10,809
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	43.35	+0.44	43.40	42.85	16,203	41,998
Jul	44.15	+0.24	44.30	43.95	6,702	30,012
Aug	45.20	+0.19	45.30	45.00	2,409	13,810
Sep	46.30	+0.14	46.45	46.15	1,093	11,514
Oct	47.50	+0.24	47.65	47.45	1,838	9,260
Nov	48.50	+0.14	48.70	48.45	177	8,962
Total					39,544	171,813

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	134.75	-0.25	135.25	134.00	14,388	34,135
Jul	136.50	-0.75	137.50	136.50	2,950	11,606
Aug	139.50	-0.50	140.25	139.25	716	10,180
Sep	142.25	-0.75	143.00	142.25	445	11,303
Oct	145.25	-0.75	146.00	145.00	166	14,597
Nov	147.50	-0.75	148.25	147.50	981	6,010
Total					31,508	139,765

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	8.900	-0.020	8.920	8.900	105	1,235
Jul	8.940	+0.040	8.940	8.890	105	1,370
Total					875	20,518

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.240	+0.025	2.265	2.219	34,916	43,127
Jul	2.295	+0.025	2.320	2.275	10,227	28,419
Aug	2.340	+0.020	2.360	2.320	4,646	22,574
Sep	2.370	+0.020	2.385	2.350	2,526	16,044
Oct	2.410	+0.020	2.425	2.390	2,371	16,441
Nov	2.540	+0.015	2.555	2.525	3,379	11,625
Total					84,844	259,380

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	52.70	+0.40	52.85	52.30	17,963	41,595
Jul	53.60	+0.25	53.80	53.30	6,858	25,152
Aug	53.80	+0.08	54.00	53.55	1,370	16,731
Sep	53.25	-0.02	53.40	53.20	449	14,062
Oct	52.10	-0.02	52.10	52.10	60	4,437
Nov	51.40	-	51.40	51.40	22	1,034
Total					26,798	107,101

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	78.75	+0.75	78.75	78.75	17	176
Jul	80.15	+0.15	80.35	80.10	87	1,778
Sep	78.15	+0.15	78.00	78.00	-	155
Nov	80.15	+0.15	80.25	80.10	105	3,335
Jan	82.15	+0.15	82.35	82.10	33	669
Total					256	6,633

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	294.50	-0.25	295.25	293.00	276	408
Jul	304.50	-0.25	306.00	302.00	16,130	66,594
Sep	314.50	+0.75	315.50	312.00	960	15,372
Dec	328.75	+1.00	329.50	326.00	1,265	24,011
Mar	339.75	+0.25	340.50	337.00	315	4,045
Jul	348.00	+1.00	347.25	347.25	26	205
Total					18,997	111,146

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	237.75	-3.00	240.50	237.50	5,245	3,690
Jul	245.00	-2.75	248.50	244.50	46,809	151,423
Sep	252.00	-2.50	254.25	251.50	4,719	38,787
Dec	257.50	-2.25	260.50	257.00	22,673	123,202
Mar	265.50	-2.00	267.25	265.25	1,061	11,017
May	270.50	-1.75	271.25	270.50	75	1,808
Total					81,639	338,427

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	77.00	+0.50	76.50	76.50	10	62
Sep	75.25	-0.25	75.50	75.25	2	20
Nov	77.25	-0.25	77.25	77.25	41	821
Jan	79.25	-0.25	79.25	79.25	80	114
Mar	81.25	-0.25	81.25	81.25	5	7
Total					28	1,028

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	649.25	-0.75	651.00	647.50	1,385	4,834
Jul	644.00	-0.50	645.50	641.00	34,528	69,689
Aug	640.50	-2.75	643.00	638.00	1,545	15,394
Sep	626.75	-1.50	628.00	624.50	708	4,108
Nov	619.00	-2.50	622.50	617.00	10,364	45,892
Jan	626.00	-2.50	629.00	624.50	105	2,626
Total					49,276	146,820

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
May	29.09	-0.05	29.32	28.76	1,982	2,571
Jul	29.35	-0.19	29.64	29.08	12,895	94,357
Aug	29.49	-0.15	29.74	29.19	2,677	21,046
Sep	29.50	-0.13	29.70	29.22	321	12,352
Oct	29.25	-0.11	29.45	29.10	502	7,703
Dec	29.11	-0.04	29.20	28.80	4,206	27,385
Total					22,676	168,799

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
May	152.6	-1.2	154.7	152.4	2,356	2,238
Jul	155.4	-0.8	157.5	155.2	15,884	65,654
Aug	156.4	-0.8	158.2	156.0	1,216	16,665
Sep	157.7	-0.6	158.5	157.2	404	13,466
Oct	157.3	-0.3	158.0	156.8	322	9,344
Dec	159.6	-0.6	161.0	159.0	3,242	23,033
Total					24,830	137,777

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	140.0	-	-	-	-	-
Nov	77.0	-	-	-	-	3
Mar	112.0	-	-	-	-	-
Apr	171.0	+8.0	174.5	165.1	181	1,243
May	181.0	+8.0	-	-	-	29
Total					181	1,243

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
May	939	-11	940	935	18	348
Jun	909	-11	910	905	13	52
Jul	895	-10	900	895	32	358
Oct	1000	-20	1000	1000	12	276
Jan	1030	-20	1050	1050	75	133
Total					75	1,177

	Close	Prev
BFI	993	1001

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	531.50	+3.50	533.00	528.50	32	540
Sep	549.00	+1.00	549.00	549.00	20	356
Total					53	989

FUTURES DATA
All futures data supplied by CMS.

Tea from the Tea Brokers' Association Mombasa: Improved demand, but at easier rates. Brighter liquoring and Medium BP1's were irregular and on balance easier. Lower Mediums declined on average by 10 to 20 cents, with Plainer sorts irregularly easier. Brighter liquoring and Medium PF1's were irregularly easier by about 10 to 25 cents. Lower Mediums and Plainer sorts were neglected but where sold were about 20 cents easier. Brighter PD's were very irregular following quality with selected lines dearer. Mediums declined by about 20 to 30 cents. Lower Mediums depreciated by around 20 to 25 cents.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1121	+21	1120	1091	532	412
Jul	1141	+20	1151	1118	4,909	29,677
Sep	1160	+20	1169	1138	1,339	22,351
Dec	1179	+19	1189	1157	2,352	31,916
Mar	1198	+18	1207	1176	2,271	38,924
May	1211	+18	1218	1210	177	13,143
Total					11,732	150,438

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
May	1752	+50	1752	1730	57	506
Jul	1733	+39	1743	1706	3,158	28,731
Sep	1752	+38	1759	1725	766	12,865
Dec	1776	+36	1781	1753	247	16,121
Mar	1804	+36	1808	1780	224	9,557
May	1822	+36	1825	1818	29	3,767
Total					4,397	78,301

■ COCOA (ICCO) (SDR's/tonne)

May 11	Price	Prev. day
Daily	1319.35	1333.05

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	2010	+2	2040	2000	405	4,783
Jul	1840	-18	1875	1830	2,160	22,535
Sep	1770	-20	1802	1760	1,178	7,108
Nov	1725	-21	1755	1730	108	2,332
Jan	1685	-21	1711	1711	3	162
Mar	1645	-21	-	-	-	357
Total					3,864	37,281

■ COFFEE "C" CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	128.00	-1.50	132.00	127.50	155	831
Jul	125.80	-2.25	131.00	124.50	2,586	17,101
Sep	123.70	-1.80	128.00	123.00	894	7,899
Dec	120.45	-1.55	124.00	120.00	440	6,654
Mar	117.35	-1.65	122.00	117.00	347	2,386
May	115.50	-1.85	117.35	115.30	358	981
Total					5,044	36,685

■ COFFEE (ICO) (US cents/pound)

May 11	Price	Prev. day
Comp. daily	113.48	113.08
15 day average	114.94	115.62

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	267.2	+1.9	270.5	265.5	3,110	17,907
Oct	266.1	+1.3	267.8	265.4	1,471	11,301
Dec	268.7	-0.1	270.0	269.4	219	1,816
Mar	272.9	+0.1	274.5	272.9	370	2,157
May	275.4	-0.1	278.1	276.1	100	552
Aug	277.9	+0.8	280.4	278.7	16	280
Total					5,286	34,033

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	9.35	+0.11	9.45	9.26	9,132	82,063
Oct	9.54	+0.10	9.58	9.49	1,271	51,282
Mar	9.93	+0.09	9.93	9.88	605	25,434
May	9.98	+0.10	9.98	9.91	222	3,714
Jul	10.00	+0.09	10.00	9.95	108	3,637
Oct	10.00	+0.09	10.01	10.00	56	3,413
Total					11,384	179,510

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	66.33	+0.93	66.60	66.10	3,240	31,046
Oct	69.20	+0.90	69.50	68.95	104	3,879
Dec	70.63	+0.90	70.88	70.45	1,874	32,917
Mar	72.18	+1.03	72.25	71.90	224	7,417
May	72.88	+1.00	72.90	72.75	184	3,135
Total					5,680	83,442

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	113.90	-0.65	114.20	111.80	3,710	21,499
Sep	117.00	-0.55	117.00	115.25	651	6,003
Nov	119.00	-0.40	118.90	117.10	587	4,455
Jan	120.75	-0.15	120.40	119.50	38	1,759
Mar	123.00	-0.15	123.40	122.00	314	1,067
Total					5,511	36,818

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

May 12	May 11	month ago	year ago
1630.0	1629.6	1655.3	1984.0

■ CRB Futures (Base: 1967 = 100)

May 11	May 8	month ago	year ago
223.51	225.14	-	-

■ GSCI Spot (Base: 1970 = 100)

May 11	May 8	month ago	year ago
163.84	163.85	165.42	197.81

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+7,500	to	525,925
Aluminium alloy	+880	to	51,100
Copper	-250	to	282,600
Lead	-50	to	106,350
Nickel	+174	to	64,578
Zinc	-1,250	to	452,825
Tin	-185	to	5,845

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	67.025	-0.550	67.900	66.900	8,535	39,310
Aug	68.225	-0.625	69.050	67.950	4,335	25,689
Oct	67.950	-0.500	68.625	67.800	1,778	14,687
Dec	69.000	-0.325	69.550	68.950	303	5,234
Feb	70.000	-0.325	70.500	70.000	183	1,838
Apr	70.875	-0.358	71.575	71.000	13	546
Total					15,147	87,327

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	61.200	-0.475	61.525	61.050	3,750	13,292
Jul	61.275	-0.650	61.750	61.000	2,025	7,934
Aug	58.375	-0.725	58.950	58.300	642	5,060
Oct	53.700	-0.475	54.000	53.550	279	3,776
Dec	53.750	-0.500	54.300	53.700	170	3,323
Feb	56.125	-0.175	56.350	55.900	58	762
Total					6,925	34,542

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
May	59.225	-1.500	60.500	58.500	282	1,132
Jul	55.925	-1.875	58.000	55.750	1,029	4,584
Aug	53.575	-1.250	55.000	53.250	184	1,163
Sep	49.875	-	50.250	49.800	3	29
Nov	45.150	-	45.700	45.125	26	235
Total					1,495	6,878

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1350	44	10	84	26
1400	16	32	58	47
1450	4	70	34	75
■ COPPER (Grade A) LME	Jun	Sep	Jun	Sep
1700	73	19	112	59
1800	23	68	64	109
1900	4	150	34	177
■ COFFEE LIFFE	Jul	Sep	Jul	Sep
1850	70	114	80	194
1900	52	103	112	233
1950	39	94	149	274
■ COCOA LIFFE	Jul	Sep	Jul	Sep
1100	55	84	14	24
1125	40	69	24	34
1150	26	58	37	48
■ BRENT CRUDE IPE	Jun	Jul	Jun	Jul
1450	22	-	-	37
1500	5	45	14	-
1550	-	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$13.09-3.25x	+0.050
Brent Blend (dated)	$14.57-4.84	+0.075
Brent Blend (Jun)	$15.15-5.25	+0.270
W.T.I.	$15.36-5.39x	+0.045

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$167-169	
Gas Oil	$134-135	-0.5
Heavy Fuel Oil	$66-68	-1
Naphtha	$151-153	
Jet fuel	$153-155	+0.5
Diesel	$139-141	+1

■ NATURAL GAS (Pence/therm)

Bacton (Jun)	9.15-9.20	-0.025

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$298.05	-3.10
Silver (per troy oz)♣	571.50c	-8.00
Platinum (per troy oz.)	$388.80	-7.60
Palladium (per troy oz.)	$333.00	+12.00
Copper	83.0c	-4.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	21.54r	-0.74
Tin (New York)	275.5	-1.0
Cattle (live weight)	86.88p	+1.18*
Sheep (live weight)	125.92p	+7.05*
Pigs (live weight)†	68.54p	+0.06*
Lon. day sugar (raw)	$238.60	+3.30
Lon. day sugar (wte)	$274.20	+6.20
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jun)♥	48.00p	
Rubber (Jul)♥	48.00p	
Rubber (KL RSS No1)	295.50m	-1.50
Coconut Oil (Phil)§	732.5y	+2.5
Palm Oil (Malay.)§	697.5	-5.0
Copra (Phil)§	$420.0y	+10.0
Soyabeans (US)	180.0	-2.0
Cotton Outlook'A' index	63.90	
Wooltops (64s Super)	367p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jun/Jul. x Jun. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 4,014 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,680 Set by DOGBERRY

ACROSS
1 Mess about with bishops in the valley (6)
4 United to nobble woman? (8)
10 Ringer with a dream (7)
11 500 went in/out with foreign partner (7)
12 Behind the Member for Rugby? (4)
13 Caper involving cart upset a continent (10)
15 Act holy about vegetable (6)
16 Notwithstanding there's a promontory in the river (7)
20 Old soldiers going about 24 hours without sailor (3,4)
21 Predicament – to wit, ravishment (6)
24 They carry victims of weapon in surprise attack, mostly (10)
26 Settlement in the wood (4)
28 Undisguised victory for ex-premier (7)
29 Locate smell of fake medicine (7)
30 Fidget like a little fish out of water, initially (8)
31 Sweet little creature eating sweet starter (6)

DOWN
1 Award medal to fruit containing rotten core (8)
2 I'm in a pickle with cheese coating kitchen equipment (4-5)
3 Told story in song (4)
5 Grade to be scandalised? (8)
6 Faulty copies for up-tempo church government (10)
7 Hussite leader on island raised city (5)
8 Type of tyre for painter to put face on (6)
9 Boast in verse by relative (5)
14 Perished without looking poorly? That's not permitted (10)
17 Leaving no mark on model without ethnic identity (8)
18 Commanding position of topless coppers surrounding pit (8)
19 Greeting the Parisian outside hospital, a ghastly place (4-4)
22 Timid creature with lots to say (6)
23 Choose to keep compiler up to speed (5)
25 Northern European's introduction to Indian cuisine? (5)
27 Whip-round for the censor (4)

Solution 9,679

هدية من الاهل

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Royal Bk of Canada O/S Fd Mgrs Ltd

GUERNSEY (REGULATED)(**)

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BT Fund Managers (Ireland) Ltd (z)

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Morgan Grenfell Investment Funds Ltd (z)

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Blackstone Franks Managers Ireland Ltd

Border Invest (Ireland) Ltd

Buchanan Asset Management (Ireland) Ltd

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Caxmore International Fund Plc

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Korea Balanced Return Fund

Korea Bond Fund Plc

Korea CB Fund Plc

Korea Capital Growth Fund

Korea Open Fund

Korea Special Opportunities Fund Plc

Korea Sprint Fund Plc

Korea Strategic Growth Fund

Yamaichi Samsung Dynamic Korea Fund

Yuki Korea Fund

Yuki Taiwan Fund

ISLE OF MAN (FSA RECOGNISED)

Allied Dunbar Intl Fund Mgrs (1000)F

Ashburton Global Funds Ltd

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

AIB Govett Management (Jersey) Limited

Bank of Scotland Fund Managers (Jersey) Ltd

Barclays Global Investors Jersey Ltd

LUXEMBOURG (FSA RECOGNISED)

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Bank Von Ernst & Cie AG

Frontrunner I (u)

Morgan Stanley Sicav - Contd.

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

Equity Fund Managers

Barclays Diversified Portfolio (z)

GT Global

Barclays Inv Funds (Luxembourg)

HSBC Investment Funds Luxembourg SA (u)

CMI Asset Management (Luxembourg) SA

Henderson Management SA (u)

LUXEMBOURG (REGULATED)(**)

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Premier Life

Professional Investment Consultants

Royal & Sun Alliance Intl Financial Services

Royal Skandia Life Assurance Ltd

Scottish Equitable International SA

Scottish Mutual International Plc

Scottish Provident Intl Life Ass Ltd

Scottish Widows International Ltd

Sun Life International (IOM) Ltd

OTHER OFFSHORE FUNDS

AXA Asset Management

Aberdeen Asset Management Asia Limited

Ability Fund Limited

Adelphi Europe Fund

Africa Emerging Markets Fund

Alliance Capital

Alpha Fund Management Ltd

The Americas Trust Bank

Apex Bank & Trust Company

Arnhold and S. Bleichroeder, Inc

Asia Pacific Securities Corp Ltd

Atlantic Investment Management

Atlas Real Estate Hedge Fund Limited

Aurelia Funds

Banca della Svizzera Italiana

Bank of America

Bank of Nova Scotia Trust Co (Cayman) Ltd

Barclays Diversified Fund

Baring International Group

Bermuda Capital Company Ltd

Credit Agricole/INDOCAM

Crystal Currency Fund Limited

Crystal Corporation B.V.

DWS Deutsche Ges. f. Wertpapiersp

Dresdner Bank Investment Group

Edinburgh Fund Managers (Bermuda) Ltd

Emerging Markets Management

Fidelity Investments

The Glenmore Property Fund Ltd

Global Asset Management

Globalvest Management Co LP

Gartmore

Indosuez Emerging Markets Funds Mgmt SA

Jupiter Asset Management (Asia) Ltd

Key Asset Management Inc

Korea International Investment Fund Ltd

Lloyds Bank International (Guernsey) Ltd

Margaret Funds - Contd.

Merrill Lynch Asset Management

Murray Johnstone International Ltd

The Osprey Group Of Funds

PFPC International Ltd

Perry Partners International Inc

Pictet & Cie

Salomon Brothers

Sloane Robinson Investment Mngmt Ltd

Schroders

Scudder Investments

Société Générale

The Thailand Fund

Templeton Global Advisors Ltd

Thornton

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Continued

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Continued

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INVESTMENT TRUSTS

Approved by the Inland Revenue

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL, EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Continued

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£19¾	-¼	*£19½	[illegible]	-	3.5	10.4
Barlow R	♣	[illegible]	[illegible]	[illegible]	[illegible]	-	2.8	14.0
Gold Fids Prop R		144½	[illegible]	[illegible]	[illegible]	-	5.4	16.4
SA Breweries R		£18¼	-1¼	[illegible]	[illegible]	-	2.2	♣
Standard Bank R		[illegible]	[illegible]	[illegible]	[illegible]	-	1.5	-
Tiger Oats		[illegible]	-	1169	780	-	2.8	18.3
Tongaat-Hulett R		735¼	+13¼	780	563	-	2.3	15.8

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRANS		[illegible]	—	[illegible]	£472	-	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols relating to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♣ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ‡ Price at time of suspension
- , Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimate.
g Assumed dividend yield after rights issue
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield includes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimate for 1998-99.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimate for 1997.
K Yield based on prospectus or other official estimate for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield is data.

Abbreviations:
, ex dividend;
, ex scrip issue;
, ex rights;
, ex all;
, ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion

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FT Company Focus / Focus Plus

Please note that FT Company Focus/Focus Plus reports ceased to be available as from May 4th 1998. However ShareFinder company reports, incorporating current and historic financial information, key performance data and consensus recommendations, may still be purchased by calling 0870 601 4600.

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The share prices printed on these pages are also available on the Internet at http://www.FT.com.

US interest jitters return to erode confidence

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The firm tone in London's equity market over the previous two sessions was reversed yesterday as jitters over the prospects of a rise in US interest rates returned to unsettle European bourses. There was also an element of unease ahead of the Bank of England's quarterly inflation report due this morning.

But the weakness in London was confined to the leaders, represented by the FTSE 100. The rest of the market, comprising the FTSE 250 and SmallCap indices, was never really under any downside pressure, apart from at the outset of trading when the 250 index spent the first 30 minutes showing a marginal fall.

On the contrary, the FTSE 250 and SmallCap indices marched on to fresh intra-day and closing records. The 250 gained a further 7.3 at a closing peak of 5,779.7, having hit an intra-day record of 5,781.7, while the SmallCap jumped 10.2 to a record close of 2,7239.1, after touching an intra-day peak of 2,739.4.

At the close, the FTSE 100 index had given up all of Monday's advance, and more, finishing 71.0 lower at 5,956.7. At its worst, the index was down 73.0.

The US Federal Reserve's open market committee meets in Washington next Tuesday to determine monetary policy and a rise in rates is seen by some as a possibility.

Hefty losses in London's front-line stocks came in the wake of a disappointing finish to Monday's session on Wall Street, where the Dow Jones Industrial Average, up 100 points in early trading, fell away to finish only 36 ahead.

Dealers in London were quick to point out that the S&P 500 index, viewed as much more representative of the US market, finished the day showing a small decline. Wall Street gave no real support yesterday, posting a 30-point decline not long after trading began.

There was further uncertainty for the UK market from the weakness of the US Treasury bond market overnight, where the yield on the long bond moved back above the 6 per cent mark. This week sees important economic data, including retail sales figures and producer and consumer inflation news.

UK gilts lost ground in the wake of the US bond market's falls, adding to the pressure on equities.

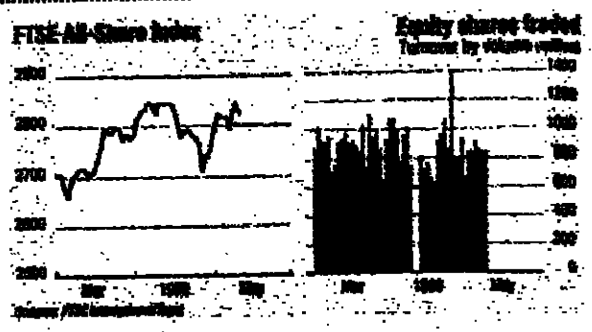
The recent strong flow of corporate activity continued yesterday with US paints group PPG confirming market suspicions that it had made a takeover approach to Courtaulds in conjunction with Donaldson Lufkin and Jenrette, the US investment bank.

There was plenty of bid action among the small caps, where takeovers were announced by Gibbon Group, the printing inks group, Capital Group, the security and investigations company, and Brunner Mond, a chemicals group.

Senior traders insisted that the FTSE 100 would be sustained by continuing takeover speculation and that the 250 and SmallCap indices would be driven by actual activity. "Corporate deals are driving the market and there are lots more to come in the short term," said one trader.

Turnover at 6pm was 843.8m shares.

FTSE All-Share Index — Equity shares traded (Turnover by volume (million))



Indices and ratios

FTSE 100	5956.7	-71.0	FT 30	3886.7	-33.6
FTSE 250	5779.7	+7.3	FTSE Non Fins p/e	23.22	23.38
FTSE 350	2886.5	-27.3	FTSE 100 Fut Jun	5999.0	-54.0
FTSE All-Share	2820.09	-24.31	10 yr Gilt yield	5.86	5.91
FTSE All-Share yield	2.78	2.75	Long gilt/equity yld ratio	2.15	2.16

Best performing sectors

1 Water ... +0.6
2 Transport ... +0.5
3 Retailers, General ... +0.5
4 Diversified Inds ... +0.3
5 Construction ... +0.1

Worst performing sectors

1 Insurance ... -2.5
2 Pharmaceuticals ... -2.0
3 Extractive Inds ... -2.0
4 Banks, Retail ... -1.7
5 Gas Distribution ... -1.5

BOC rides see-saw

COMPANIES REPORT

By Peter John and Martin Brice

Industrial gases group BOC experienced a tumultuous session in the wake of first-half results at the low end of expectations.

The stock traded 17 lower first thing, but clawed back to close 3½ higher at 976p amid hopes that a review launched by the company signalled a recovery from its recent poor performance.

Profits dropped 17 per cent to £179.8m in the six months to the end of March, compared with analysts forecasts between £179.5m and £190.5m.

The figures were depressed by sterling strength and the sale of the Ohmeda healthcare businesses. Underlying profits only fell 3 per cent but were still disappointing.

Forecasts are expected to be reduced to around £375m-£385m. Credit Lyonnais said its profit forecast would probably come back to around £380m from £415m. BT Alex Brown was said to have cut its full-year estimate to £385m from £420m and others were making similar reductions.

Commercial Union and General Accident were big fallers amid jitters over today's first-quarter results from the two insurers. CU fell 46 to £10.76 and GenAcc 45 to £13.60. The two groups will issue their last quarterly earnings on Wednesday before a merger in June.

Other large insurers Guardian Royal Exchange and Royal & Sun Alliance were also down.

Insurer Norwich Union gained 5 to 438½p following an upgrade from Dresdner Kleinwort Benson.

Insurance broker Sedgwick eased 3½ to 154p after announcing a slide in first quarter profits to £38.3m from £43.5m.

Hyder and United Utilities rose as Dresdner Kleinwort Benson repeated a "buy" recommendation on the two stocks.

United Utilities traded 14 higher at 809p while Hyder rose 9 to 949p. Analyst Guy Farmer was pushing the two stocks on the basis of yield and interest cover. He was positive on the rest of the sector for the same reason.

Among other water stocks, Anglian Water rose 11 to 860p and Yorkshire Water 12 to 460p.

Confirmation that PPG, the world's biggest paints company, is interested in Courtaulds and prepared to top the current 450p-a-share offer from Akzo Nobel of the Netherlands sent Courtaulds' shares up 7 to 473p.

Xenova rallied 4 to 181p after the pharmaceuticals company said its new cancer drug had entered Phase I clinical trials. The drug is part of Xenova's multi-drug resistance programme.

Celsis International jumped 8½ to 41p as the contamination testing firm reported a reduced loss for the year and said its chief executive had resigned. The company also said the executive had informed the board he was considering taking the company private.

Bank of Ireland rose 4 to £12.61 after Lehman Brothers raised profit estimates and repeated an "outperform" rating ahead of Thursday's results.

Lehman said the bank's forthcoming results should show strong revenue growth from the booming Irish economy. The broker raised its 1999 net income forecast to I£430m from I£375m and the earnings per share forecast to 80p from 72p.

Metal and electronics group Johnson Matthey lifted 9½ to 640½p after SG Securities said the stock deserved a higher rating.

"The driver of growth in the medium term will be the electronic materials division," said SG. "We expect biomedical to grow into a division of its own within three years, with £25m profit in three years."

Analysts said the shares deserved a higher rating as the perceived risks attached to the electronic materials division had been overdone. They gave the stock a sum-of-the-parts valuation of 730p.

Northern climbs

Northern Foods climbed 12 to 213½p after SBC Warburg Dillon Read recommended the stock. The broker gave the shares a target price of 250p and upgraded the stock to "buy" from "hold".

A series of trading statements underlined the recent trend of strong performances by information technology companies. The trading statement from CMG helped the shares rise 70 to £27.97½ after it said sales and profits were well ahead of last year. JBA Holdings continued to benefit from its trading statement on Monday, which said first-quarter revenues were up 88 per cent on the same period a year ago. The shares rose 37½ to 685p.

MDIS continued the trend of bullish trading statements from IT groups, and the stock gained 3 to 87½p.

MMT Computing rose 40 to £12.72½ after its interim pre-tax result of £4.25m exceeded analysts' forecasts.

Sage rose 30 to £13.42½ ahead of results today.

Hopes of further weakening in sterling were said to be behind the strength in Tomkins, which achieved one of the better performances in the Footsie as the shares gained 5 to 358p.

Fairey Group suffered the biggest fall in the FTSE 250 after it said the process instrumentation, side, its biggest business, would suffer reduced activity in the semiconductor industry and weak Asian demand. It also said it was cutting costs in those businesses affected by poor demand but maintaining marketing and technical development spending. The shares dropped 66 to 498½p.

Scottish Power shed 12½ to 555½p as Dresdner Kleinwort Benson lowered its recommendation on the stock from "add" to "hold".

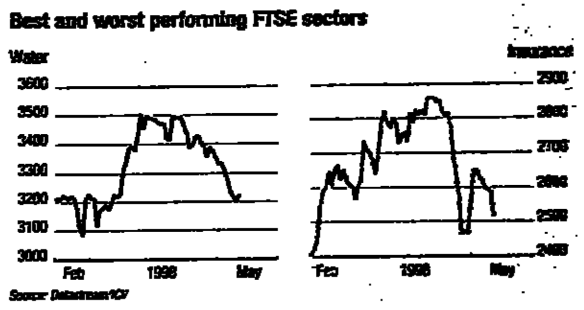
A series of bullish trading statements from annual meetings and the trend of bids lifted smaller companies.

The latest target was Brunner Mond, which agreed to a 190p-a-share bid from Soda Ash, a company formed by venture capitalists to take Brunner private. Brunner Mond's shares rose 7½ to 186½p. The company raised a general issue of concern when it focused on the disappointing share performance since it floated from ICI in 1996.

Sun Chemical of the Netherlands yesterday made a 250p-a-share offer for printing inks specialist Gibbon Group. Gibbon rose 39½ to 242½p, one of the better performances in the market.

Security and investigations company Capitol will be taken private via an agreed 175p-a-share bid from Cheam, a group formed by venture capitalists and the management. Cheam is paying a 35 per cent premium.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	May 12	May 11	May 8	May 7	May 6	Yr ago	*High	*Low
FT 30	3886.7	3920.3	3892.0	3885.4	3882.7	3018.6	3920.3	3883.3
Ord. div. yield	2.81	2.79	2.82	2.83	2.82	3.63	4.22	2.79
P/E ratio net	25.23	25.41	25.18	25.06	25.18	18.30	25.41	15.80
P/E ratio nil	25.00	25.19	24.95	24.84	24.96	18.12	25.19	15.71

FT 30 since compilation: high 3920.3 11/05/98, low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3920.6	3905.1	3889.2	3893.5	3893.5	3892.8	3893.6	3889.2	3883.6	3920.6	3883.3

STOCK MARKET TRADING DATA

	May 12	May 11	May 8	May 7	May 6	Yr ago
SEAQ bargains	62,102	69,985	60,487	60,570	62,121	60,979
Equity turnover (£m)†	-	na	4081.6	2853.5	4101.3	2521.4
Equity bargains†	-	na	81,039	37,250	41,495	49,454
Shares traded (m)†	-	na	1024.9	707.4	916.6	710.3
Total market bargains‡	-	na	98,296	46,620	50,561	na
Total turnover (£m)‡	-	na	5710.5	3611.6	5348.0	na
Total shrs traded (m)‡	*843.8	na	1338.7	939.3	1154.5	na
Tradepoint turnover (£m)	25.6	70.1	29.2	31.3	27.7	2.0
Tradepoint shrs traded	7,160	14,490	7,083	7,906	7,875	552

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	821	Total Highs	314	Total contracts	27,623
Total Falls	801	Total Lows	26	Calls	15,037
Same	1,376			Puts	12,586

May 12 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	-54.0	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	-54.0	[illegible]	[illegible]	[illegible]	[illegible]
Dec		[illegible]	-54.0			0	[illegible]

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point: [illegible]

FTSE 100 INDEX OPTION (LIFFE) £10 per full index point: [illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point: [illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

Gold Mines Index (32)	1259.27	+2.1	1232.43	1810.[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Regional Indices									
Africa (14)	1362.94	+2.9	1324.89	1808.[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Australasia (7)	1435.18	+1.6	1412.38	1781.[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North America (11)	1212.09	+1.9	1189.88	1544.[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. [illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	May 12	Day's chge%	May 11	May 8	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5956.7	-1.2	6028.3	5969.8	4691.0	2.76	2.33	2.06	21.99	64.85	2600.57
FTSE 250	5779.7	+0.1	5772.4	5741.1	4533.0	2.83	2.38	2.07	21.32	54.30	2472.08
FTSE 250 ex IT	5833.9	+0.2	5823.2	5795.5	4549.0	2.90	2.45	2.14	20.14	56.62	2504.83
FTSE 350	2886.5	-0.9	2913.8	2887.9	2271.6	2.78	2.34	2.06	21.85	30.59	2574.58
FTSE 350 ex IT	2890.2	-1.0	2918.0	2892.4	2271.8	2.79	2.36	2.07	21.61	30.93	1322.29
FTSE 350 Higher Yield	2849.4	-0.8	2873.7	2862.0	2207.0	3.72	3.17	1.96	17.14	37.04	2189.51
FTSE 350 Lower Yield	2938.8	-1.0	2968.6	2931.4	2342.1	2.06	1.71	2.20	27.64	25.28	2132.23
FTSE SmallCap	2739.15	+0.4	2728.87	2704.61	2317.81	2.79	2.26	1.60	28.01	21.89	2378.19
FTSE SmallCap ex IT	2738.02	+0.4	2726.75	2704.13	2313.21	2.87	2.40	1.66	25.31	22.80	2399.04
FTSE All-Share	2820.09	-0.9	2844.40	2819.13	2230.66	2.78	2.34	2.03	22.16	29.40	2552.59
FTSE All-Share ex IT	2825.78	-0.9	2850.86	2825.87	2230.75	2.80	2.36	2.05	21.78	29.86	1315.94

FTSE Actuaries Industry Sectors

	May 12	Day's chge%	May 11	May 8	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4972.73	-0.5	5000.15	4949.38	4328.20	3.06	2.65	1.72	23.77	74.18	2287.60
12 Extractive Industries(6)	3429.61	-2.0	3497.98	3423.62	4298.24	4.10	3.75	2.02	15.05	76.82	1082.45
15 Oil, Integrated(4)	5548.40	-0.4	5570.30	5530.50	4481.04	3.04	2.60	1.64	25.05	79.87	2625.40
16 Oil Exploration & Prod(12)	3310.45	—	3311.26	3224.74	3560.69	1.72	1.43	2.00	38.21	31.12	2058.14
20 GEN INDUSTRIALS(220)	2425.33	-0.5	2436.51	2411.48	1941.57	3.05	2.67	2.21	18.49	26.68	1422.67
21 Construction(38)	1662.58	+0.1	1660.74	1651.12	1402.72	2.93	2.38	2.65	16.10	17.87	1481.58
22 Building Matls & Merchs(27)	1984.25	-0.2	1988.92	1977.68	1881.05	3.76	3.21	2.03	16.34	29.45	1080.31
23 Chemicals(24)	3113.35	-0.5	3127.45	3077.21	2332.02	3.04	2.83	1.79	23.06	32.15	1586.90
24 Diversified Industrials(10)	1522.09	+0.3	1517.87	1487.47	1357.75	3.56	3.35	2.40	14.63	20.65	935.38
25 Electronic & Elect Equip(26)	2871.91	-1.1	2904.43	2815.50	2118.20	3.01	2.43	1.62	25.67	21.48	1582.58
26 Engineering(62)	3314.86	-0.7	3336.87	3325.17	2613.24	2.80	2.49	2.43	18.34	38.49	2136.61
27 Engineering, Vehicles(10)	4515.39	-0.1	4518.15	4485.92	2767.12	1.97	1.61	3.32	19.10	38.80	2486.51
28 Paper, Pckg & Printing(23)	2416.07	-0.2	2420.25	2411.72	2298.44	4.22	3.54	2.23	13.31	29.40	1087.65
30 CONSUMER GOODS(92)	5803.61	-1.3	5877.43	5788.60	4551.18	2.52	2.25	1.84	26.98	72.50	2295.87
32 Alcoholic Beverages(6)	4163.61	-0.3	4176.74	4128.44	3300.26	2.80	2.77	1.87	23.84	67.92	1631.59
33 Food Producers(25)	4175.09	-0.4	4193.74	4169.93	2994.10	2.58	2.20	2.01	24.13	50.07	2024.61
34 Household Goods & Texts(24)	3566.21	-0.9	3598.22	3592.79	3028.52	3.06	2.75	2.19	18.52	42.83	1501.46
36 Health Care(14)	2343.06	—	2343.46	2332.46	2218.79	2.17	1.96	2.39	24.08	14.89	1492.09
37 Pharmaceuticals(20)	9541.29	-2.0	9735.09	9538.25	7319.12	1.93	1.71	1.70	38.13	85.15	3412.69
38 Tobacco(3)	4942.29	-0.8	4981.60	4978.01	4493.08	5.19	4.59	1.75	13.73	121.61	1380.79
40 SERVICES(278)	3468.58	-0.3	3474.03	3448.31	2711.26	2.48	2.00	1.98	25.76	20.13	1668.65
41 Distributors(28)	2951.23	-0.1	2955.57	2961.50	2732.31	3.24	2.67	1.89	19.40	33.42	1158.27
42 Leisure & Hotels(27)	4001.27	-0.2	4007.34	4013.51	3516.02	2.48	1.89	2.38	21.12	51.40	2266.06
43 Media(41)	4509.49	—	4508.89	4602.22	4415.77	2.28	1.92	2.17	25.30	45.46	1708.81
44 Retailers, Food(13)	3018.27	-1.4	3062.48	3036.62	2116.01	2.95	2.36	2.17	19.54	20.47	2044.77
45 Retailers, General(48)	2399.55	+0.5	2388.66	2378.15	2137.52	3.04	2.45	2.15	19.10	12.06	1452.39
46 Telecommunications(10)	3863.52	-0.9	3900.83	3838.63	2332.01	2.28	1.84	1.51	36.42	4.04	1879.50
47 Breweries, Pubs & Rest.(24)	4250.91	—	4251.62	4230.98	3315.78	2.81	2.25	2.35	18.90	16.19	2157.27
48 Support Services(62)	4930.76	-0.6	4958.62	4940.71	3002.84	1.21	1.02	2.56	40.42	25.14	3247.98
49 Transport(25)	3743.61	+0.5	3724.17	3699.92	2806.92	2.75	2.24	1.31	34.81	25.93	1663.33
60 UTILITIES(23)	3769.14	-0.8	3799.16	3796.33	2826.03	4.16	3.32	1.87	16.07	14.30	1781.21
62 Electricity(9)	4263.89	-1.2	4313.85	4327.26	3122.86	4.43	3.54	2.17	12.99	7.28	2460.03
64 Gas Distribution(2)	2878.10	-1.5	2924.08	2878.06	1643.55	2.26	1.81	‡	‡	28.03	1664.04
68 Water(12)	3220.27	+0.6	3200.03	3217.24	2632.09	5.30	4.24	2.20	10.71	10.26	1955.97
69 NON-FINANCIALS(635)	2848.77	-0.6	2866.90	2839.19	2241.34	2.77	2.35	1.94	23.22	26.57	2314.77
70 FINANCIALS(100)	5531.85	-1.6	5622.47	5588.21	4424.57	2.89	2.38	2.35	18.37	78.03	2557.98
71 Banks, Retail(12)	8037.88	-1.7	8175.97	8116.40	6657.69	2.94	2.35	2.32	18.31	124.11	2816.67
73 Insurance(17)	2517.58	-2.5	2582.67	2594.65	1856.53	3.40	3.08	2.90	12.69	36.48	2073.05
74 Life Assurance(6)	6930.24	-1.3	7021.12	6952.24	5198.36	2.71	2.34	2.60	17.74	106.92	3098.61
77 Other Financial(25)	5022.25	-1.1	5079.31	5069.22	3330.85	2.19	1.79	2.24	25.50	58.10	3059.56
79 Property(46)	2347.58	-0.6	2365.92	2340.34	2005.27	2.77	2.29	1.46	30.88	11.29	1532.53
80 INVESTMENT TRUSTS(115)	4034.57	....	4035.09	3982.84	3400.56	1.98	1.60	1.18	53.50	23.05	1466.31
89 FTSE All-Share(869)	2820.09	-0.9	2844.40	2819.13	2230.66	2.78	2.34	2.03	22.16	29.40	2552.59
105 FTSE All-Share ex IT(744)	2825.78	-0.9	2850.86	2825.87	2230.75	2.80	2.36	2.05	21.78	29.86	1315.94
Information Technology	1549.82	+0.7	1539.51	1520.39	-	0.56	0.45	3.33	67.32	2.81	1553.06
FTSE Fledgling	1464.77	+0.4	1458.58	1449.03	1301.27	2.98	2.41	1.39	30.14	11.84	1618.70
FTSE Fledgling ex IT	1488.50	+0.5	1481.41	1472.86	1317.83	3.29	2.67	1.45	28.12	13.22	1651.10
FTSE AIM	1102.0	+0.3	1098.3	1098.4	1092.3	1.10	0.88	0.49	80.00†	3.50	1017.84

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	-	5978.9	5965.4	5978.7	5975.4	5974.3	5975.1	5981.9	5957.9	6017.8	5955.3
FTSE 250	-	5770.3	5772.9	5779.0	5778.7	5778.9	5778.1	5778.2	5779.2	5781.7	5770.2
FTSE 350	-	2894.3	2889.2	2895.0	2893.7	2893.3	2893.5	2896.4	2886.9	2909.5	2885.7
FTSE SmallCap	2730.82	2732.31	2732.60	2734.28	2735.89	2736.74	2737.44	2737.96	2738.93	2739.33	2730.75
FTSE All-Share	-	2826.76	2822.21	2827.61	2826.51	2826.18	2826.46	2821.76	2820.47	2840.66	2819.35

Time of FTSE 100 Day's high: 8:33:45 Day's low: 16:08:15. FTSE 100 1998 High: 6105.8 (06/04/98) Low: 5088.7 (12/01/98)
Time of FTSE All-Share Day's high: 8:33:00 Day's low: 14:55:00. FTSE All-Share 1998 High: 2847.10 (06/04/98) Low: 2369.32 (12/01/98)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Deletions: Tele-Cine Cell (FTSE Fledgling).

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 12 / Sch)

BELGIUM/LUXEMBOURG (May 12 / Frs.)

CZECH REP (May 12 / Koruna)

DENMARK (May 12 / Kr)

FINLAND (May 12 / Mka)

FRANCE (May 12 / Frs.)

GERMANY (May 12 / Dm.)

GREECE (May 12 / Drachma)

ITALY (May 12 / Lire)

NETHERLANDS (May 12 / Fls.)

NORWAY (May 12 / Kroner)

POLAND (May 12 / Zloty)

PORTUGAL (May 12 / Escudo)

SPAIN (May 12 / Pta.)

SWEDEN (May 12 / Kronor)

SWITZERLAND (May 12 / Frs.)

TURKEY (May 12 / Tk Lira)

PACIFIC

JAPAN (May 12 / Yen)

AUSTRALIA (May 12 / Aust$)

HONG KONG (May 12 / H.K.$)

INDONESIA (May 12 / Rupiah)

MALAYSIA (May 12 / MYR)

NEW ZEALAND (May 12 / NZ $)

SINGAPORE (May 12 / S$)

SOUTH KOREA (May 12 / Won)

TAIWAN (May 12 / TW $)

THAILAND (May 12 / Baht)

AMERICAS

CANADA

TORONTO (May 12 / Can $)

4 pm close

MONTREAL (May 12 / Can $)

4 pm close

MEXICO (May 12 / Peso)

12:30 pm

AFRICA

SOUTH AFRICA (May 12 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY MAY 11 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY MAY 8 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	207.56	0.2	188.73	174.12	191.70	217.50	0.6	3.59	207.09	187.62	173.62	190.43	216.18	243.87	190.26	230.92
Austria (23)	242.16	0.6	220.18	203.14	223.65	223.52	1.0	1.47	240.77	218.14	201.86	221.41	221.27	242.16	181.60	190.78
Belgium (26)	335.48	1.3	305.04	281.43	309.84	303.21	1.7	2.39	331.30	300.16	277.78	304.65	298.13	335.66	234.33	246.62
Brazil (26)	240.52	−2.1	218.70	201.77	222.14	507.23	−2.1	1.95	245.78	222.67	206.06	226.01	517.95	322.44	184.94	253.07
Canada (120)	247.89	0.7	225.40	207.95	228.95	257.24	0.6	1.58	246.15	223.01	206.37	226.36	255.72	249.78	198.59	198.59
Denmark (34)	515.35	1.8	468.59	432.31	475.97	474.42	2.2	1.27	506.48	458.88	424.64	465.75	464.27	521.81	374.08	374.08
Finland (28)	451.12	1.9	410.19	378.43	416.65	511.16	2.4	1.79	442.50	400.98	370.99	406.91	499.24	451.12	264.93	266.97
France (79)	319.93	2.0	290.90	268.38	295.48	298.92	2.5	1.97	313.51	284.04	262.85	288.30	291.73	319.93	213.42	221.19
Germany (58)	288.96	1.2	262.74	242.40	266.88	266.88	1.6	1.23	285.66	258.81	239.49	262.68	262.68	290.93	204.89	210.99
Greece (37)	264.68	−4.1	240.66	222.03	244.45	585.84	−3.9	1.58	276.05	250.10	231.44	253.85	609.74	298.79	284.68	—
Hong Kong, China (66)	303.60	0.5	276.06	254.69	280.40	302.06	0.5	5.26	302.12	273.72	253.29	277.82	300.58	580.03	282.93	494.40
Indonesia (27)	40.54	−1.1	36.86	34.01	37.45	233.80	0.0	3.02	40.98	37.13	34.35	37.68	233.80	254.90	27.87	236.73
Ireland (16)	553.24	0.9	503.04	464.10	510.96	558.43	1.1	1.76	548.52	496.96	459.88	504.40	544.27	560.44	336.68	342.24
Italy (54)	171.77	2.4	156.19	144.10	158.65	224.73	2.9	1.18	167.68	151.92	140.58	154.19	218.48	177.15	86.93	89.44
Japan (480)	94.55	1.3	85.97	79.32	87.33	79.32	1.4	1.00	93.34	84.57	78.26	85.84	78.26	141.12	88.52	124.65
Malaysia (107)	165.08	−1.4	150.10	138.48	152.46	245.68	0.0	2.81	167.43	151.69	140.37	153.96	245.68	544.42	113.58	544.42
Mexico (28)	1618.75	−1.6	1471.88	1357.93	1495.04	14981.87	−1.7	1.58	1644.69	1490.10	1378.91	1512.41	15247.10	1901.98	1385.25	1385.25
Netherlands (19)	517.16	1.0	470.24	433.83	477.64	472.50	1.5	1.96	511.81	463.71	429.11	470.65	465.61	521.95	366.61	366.61
New Zealand (14)	70.44	0.1	64.05	59.09	65.06	69.25	1.1	4.72	70.38	63.74	58.99	64.70	68.49	96.47	69.87	86.97
Norway (38)	346.13	0.2	314.73	290.36	319.68	348.96	0.6	1.80	345.57	313.09	289.73	317.78	346.91	374.84	281.62	301.44
Philippines (22)	95.07	−0.6	86.45	79.76	87.81	187.87	0.0	1.11	95.68	86.68	80.22	87.98	187.87	173.10	57.54	159.03
Portugal (18)	282.40	−0.7	256.78	236.90	260.82	351.91	−0.3	1.07	284.28	257.56	238.34	261.41	353.16	299.39	282.40	—
Singapore (42)	195.26	−0.4	177.54	163.80	180.34	146.17	0.0	2.05	196.04	177.62	164.36	180.28	146.17	401.75	144.01	386.14
South Africa (43)	329.12	0.7	299.26	276.09	303.97	364.18	0.7	2.45	326.70	295.99	273.90	300.42	361.50	364.24	227.66	362.50
Spain (31)	381.81	1.9	347.17	320.29	352.63	436.51	2.4	1.75	374.55	339.34	314.02	344.43	426.41	396.69	236.28	242.07
Sweden (46)	612.15	0.8	556.60	513.52	565.37	691.05	1.2	1.69	607.12	550.06	509.01	558.30	682.90	612.15	439.98	441.36
Switzerland (30)	410.80	0.7	373.52	344.61	379.40	377.82	1.1	1.07	408.01	369.66	342.08	375.19	373.68	410.80	283.51	283.51
Thailand (39)	24.02	0.1	21.84	20.15	22.19	35.94	0.0	8.69	23.99	21.74	20.11	22.06	35.94	69.09	13.10	68.18
United Kingdom (206)	386.60	0.6	351.52	324.31	357.05	351.52	0.9	2.80	384.40	348.26	322.28	353.48	348.26	401.84	293.10	296.40
USA (635)	452.36	−0.2	411.31	379.47	417.79	452.36	−0.2	1.42	453.16	410.56	379.93	416.71	453.16	462.18	333.81	333.81
Americas (810)	410.01	−0.2	372.80	343.94	378.67	346.32	−0.2	1.43	410.70	372.10	344.33	377.67	346.93	418.95	305.31	305.31
Europe (748)	361.36	1.1	328.57	303.14	333.75	341.39	1.5	1.96	357.50	323.90	299.73	328.75	336.41	363.50	256.75	257.47
Nordic (149)	536.56	1.1	487.88	450.11	495.56	534.48	1.5	1.65	530.68	480.80	444.92	488.00	526.57	536.56	380.95	381.48
Pacific Basin (889)	103.65	1.0	94.24	86.95	95.73	87.78	1.1	1.69	102.59	92.95	86.01	94.34	86.78	158.99	95.32	143.62
Euro-Pacific (1617)	211.07	1.1	191.92	177.06	194.94	183.37	1.4	1.89	208.85	189.22	175.10	192.05	180.86	216.04	172.03	191.10
North America (755)	439.42	−0.1	399.55	368.62	405.84	439.30	−0.1	1.43	440.03	398.67	368.92	404.64	439.92	448.61	325.52	325.52
Europe Ex. UK (540)	336.80	1.3	306.24	282.53	311.06	328.05	1.8	1.55	332.37	301.13	278.66	305.64	320.43	336.80	230.16	230.86
Pacific Ex. Japan (389)	187.23	0.1	170.24	157.06	172.92	190.52	0.5	4.10	187.02	169.44	156.80	171.98	189.64	318.98	161.31	306.08
World Ex. US (1835)	215.11	1.0	195.59	180.45	198.67	180.86	1.3	1.87	213.02	193.00	178.60	195.89	188.49	220.18	175.30	194.46
World Ex. UK (2262)	282.55	0.4	256.91	237.02	260.95	257.84	0.5	1.51	281.51	255.05	236.02	258.87	256.60	287.02	233.28	233.28
World Ex. Japan (1990)	389.16	0.3	353.87	326.47	359.44	382.48	0.4	1.71	388.06	351.58	325.35	356.85	380.81	394.39	297.10	297.10
The World Index (2470)	291.28	0.4	264.93	244.42	269.10	266.27	0.5	1.64	290.24	262.95	243.33	266.89	264.86	296.57	238.66	238.66

CONSTITUENT CHANGES WITH EFFECT 13/5/98: Deletion: Femsa B (Mexico). Addition: FEMSA UB (MEXICO). Markets closed 11/5/98: Malaysia, Thailand, Singapore, Indonesia and Philippines. Latest prices were unavailable for this edition.

Emerging markets: IFC Investable indices

NEW YORK STOCK EXCHANGE PRICES

4 pm close May 12

1998 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close

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Closing values at 16.00 CET. *E-Mail: info@eurobench.com*

European Sector Indices		CURRENT 12/5/98	PREVIOUS 11/5/98	NET CHANGE	% CHANGE
Financials	USD	2163.39	2180.74	-17.35	-0.80
(IN-FIN)	DEM	2679.28	2710.07	-30.79	-1.14
Non-durable goods	USD	1562.16	1550.35	+11.81	+0.76
(IN-GOODS)	DEM	1934.67	1926.67	+8.00	+0.42
Oils	USD	1602.67	1580.92	+21.75	+1.38
(IN-OIL)	DEM	1984.85	1964.66	+20.19	+1.03
Pharma-chemicals	USD	1567.81	1571.50	-3.69	-0.36
(IN-PHARMA)	DEM	1941.68	1952.04	-11.36	-0.58

Price data supplied by Extel, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. # Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	May 11	May 8	May 7	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9091.52	9055.15	8976.68	9192.66 (4/5)	7580.42 (9/1)	9192.66 (4/5/98)	41.22 (8/7/32)
Home Bonds	104.42	104.80	104.80	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.88 (1/10/81)
Transport	3408.86	3424.92	3394.84	3686.02 (16/4)	3194.38 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	282.12	282.38	281.49	291.18 (2/4)	262.88 (9/1)	291.18 (2/4/98)	10.50 (8/7/32)

DJ Ind. Day's High 9121.52 (9143.00) Low 9045.43 (9051.27) (Theoretical)
Day's High 9160.67 (9200.75) Low 9055.45 (9071.20) (Actual)

Standard and Poors	May 11	May 8	May 7	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1106.64	1108.14	1095.14	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials¶	1294.21	1295.70	1279.38	1311.48 (22/4)	1077.40 (9/1)	1311.48 (22/4/98)	3.52 (30/6/32)
Financial¶	132.17	132.38	131.18	140.88 (14/4)	116.65 (9/1)	140.88 (14/4/98)	7.13 (4/9/74)
Others							
NYSE Comp.	575.27	575.72	570.22	586.82 (22/4)	487.47 (9/1)	586.82 (22/4/98)	4.54 (25/4/42)
Amex Comp	744.03	744.23	742.25	763.67 (22/4)	646.41 (12/1)	763.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	1848.07	1894.37	1835.14	1917.81 (22/4)	1503.22 (9/1)	1917.81 (22/4/98)	54.87 (3/10/74)
Russell 2000	476.90	479.51	475.96	491.41 (21/4)	410.88 (12/1)	491.41 (21/4/98)	128.36 (7/12/93)

RATIOS

	May 8	May 1	Apr 24	Year ago
Dow Jones Ind. Div. Yield	1.56	1.54	1.55	1.71

	May 6	Apr 29	Apr 22	Year ago
S & P Ind. Div. yield	1.33	1.35	1.29	1.72
S & P Ind. P/E ratio	30.66	30.29	31.13	23.33

US DATA

MARKET ACTIVITY

Volume (million)	May 11	May 8	May 7
NYSE	580.840	587.800	585.548
Amex	32.850	28.813	28.595
NASDAQ	730.986	730.301	725.206

NYSE	May 11	May 8	May 7
Issues Traded	3,500	3,403	3,481
Rises	1,284	1,800	1,086
Falls	1,884	1,110	1,858
Unchanged	532	573	537
New Highs	95	82	81
New Lows	33	27	33

NYSE TRADING ACTIVITY

NASDAQ TRADING ACTIVITY

JAPAN

FRANCE

GERMANY

UK

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	1111.70	1112.70	+0.40	1114.30	1109.20	114,009	337,779
Sep	1124.00	1125.50	+1.10	1126.30	1124.00	1,724	13,030
Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	15420.0	15260.0	−100.0	15420.0	15240.0	20,529	194,244
Sep	15390.0	15310.0	−100.0	15400.0	15310.0	71	12,900

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
May	3971.0	4003.0	+9.0	3973.0	3967.0	326	35,866
Jun	3946.0	3984.0	+9.0	3946.0	3946.0	1,114	19,834
DAX							
Jun	5302.0	5316.0	−19.5	5322.0	5265.5	21,002	123,807
Sep	5334.5	5361.5	−20.5	5361.5	5325.0	168	17,618

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
May	767.00	764.75	−8.25	768.00	762.00	30,140	121,039
Jun	770.00	768.50	−7.50	771.75	766.00	21,317	29,401
KOSPI							
May	7624.8	7606.0	−83.8	7634.8	7597.0	8,465	18,830
Jun	7600.0	7580.0	−90.2	7620.0	7580.0	3,860	3,259

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

THE NASDAQ STOCK MARKET

4 pm close May 12

AMEX PRICES

4 pm close May 12

EASDAQ

STOCK MARKETS

Caution returns with higher bond yield

WORLD OVERVIEW

The merger mania that carried stock markets higher on Monday quickly dissipated after the yield on the benchmark 30-year US Treasury bond moved back above 6 per cent, *writes Philip Coggan*.

With a rash of US economic data out this week and the Federal Reserve's open market committee meeting on May 19, investors were showing signs of caution. The US stock market's performance on Monday, where the Dow Jones Industrial Average lost much of its early gains, also weighed on sentiment.

Meanwhile, the parlous state of the Japanese economy was confirmed in a statement from the country's Economic Planning Agency.

"The economy is stagnant and conditions are becoming more severe," the agency said. The Japanese 10-year benchmark yield dropped to another record low of 1.3 per cent.

Asian markets were generally lower with the Indian nuclear tests adding to the tension, although the Indian and Pakistani markets recovered from their worst levels. After the early-1998 rally in Asian bourses, investors are steadily returning to a more gloomy view of economic and corporate fundamentals.

"In economic terms, we have described the region as having entered a convalescence stage but have been at pains to stress that this period will be at the very least as protracted as other crises in the developing world, which would suggest a two-year workout phase," says the emerging markets strategy team at ING Barings. "This leads us to adopt a defensive strategy built on currency market stability and corporate solvency."

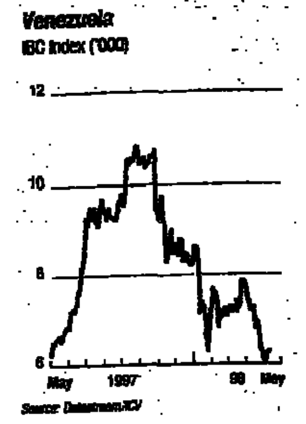
European markets shed some, but not all, of Monday's gains with most bourses 0.5 to 1 per cent lower. The first day of trading in the new Eurotop 100 index futures contract on the London International Financial Futures Exchange saw minimal business, with only 73 contracts traded. The index is traded in option form on the Amsterdam exchange.

Analysts continue to produce research looking at the implications for markets of the drive to European economic and monetary union, the latest being the strategy team at Goldman Sachs.

"We expect that monetary union will improve the risk-reward opportunities for equity investors, improve liquidity in equity markets, accelerate the pace of restructuring, rationalisation and consolidation in European industry and raise sustainable valuations through the present asset price cycle relative to history," they conclude.

EMERGING MARKET FOCUS

Devaluation fear haunts Caracas



Political uncertainty and economic volatility, for long Venezuela's Achilles heel, have struck again.

Last week, the mounting uncertainty over the outcome of December's presidential elections combined with weak revenues from oil to push the Caracas stock market down to a 13-month low.

In dollar terms, the benchmark IBC index has fallen 32.5 per cent so this year, having shed 30 per cent in 1997.

As a result of this year's steep shortfall in oil revenues, official forecasts for gross domestic product growth have been cut from 4.5 per cent to less than 1 per cent.

The budget deficit is expected to reach around 4 per cent of GDP, up from 0.5 per cent in 1997, and the current account surplus is seen as shrinking to $500m from $6bn last year.

As if this were not enough, investors are having to cope with the rise in popularity of Hugo Chávez, the former coup leader. According to opinion polls, he is now the most popular presidential candidate.

"For the economy and investment in the country, Mr Chávez would be a disaster," said Gert Petersen, executive director of the German-Venezuelan chamber of commerce.

Not surprisingly, capital has been flooding out of the country. To slow this flight, the central bank has raised interest rates by 12 percentage points since January, compounding the investment shift from equities to fixed-income securities.

Higher interest rates appear to have taken the immediate pressure off the currency and the bolivar has managed to return to the central parity of the currency band.

Yet, in spite of claims to the contrary by government officials, the fear of a devaluation continues to haunt sentiment.

According to some estimates, the bolivar is overvalued by about 30 per cent and continues to appreciate in real or inflation-adjusted terms.

Interest rates are unlikely to rise much more. The government is aware its siege policies are strangling economic growth and having a detrimental effect on the banks, where bad credit ratios have jumped in recent months.

Some analysts are beginning to spot an up-side potential. "Values for some companies have reached ridiculously low levels," says Luis Guillermo Rodriguez, mutual fund manager with brokers Merinvest.

Large foreign investors who have not yet left are likely to "stick it out", he says. "They have taken their loss and are hoping for a recovery."

Much depends on where the oil price goes from here. And, equally, much depends on whether a consensus candidate can emerge before Venezuelans go to the polls in December.

"As long as the fiscal and electoral outlook does not change, we are going to have a depressed market," says José Gonzalo Muci, president of brokers, Bancaracas.

Raymond Colitt

US equities unsettled by data concerns

AMERICAS

US equities turned lower as investors took defensive action ahead of the release of major economic data, *writes John Labate in New York*.

Early gains turned to losses, and by early afternoon the Dow Jones Industrial Average had lost 20.93 at 9,070.59. The broader Standard & Poor's 500 index was down 2.80 to 1,103.84. The Nasdaq composite index fell 6.28 to 1,841.79.

"There isn't a high level of comfort I'm picking up on investing at these levels," said Hugh Johnson, chief investment officer at First Albany. "There's been backing away from interest rate-sensitive stocks for more than a week."

Among the fallers on interest rate fears were financial stocks and utility shares. Citicorp tumbled $1⅝ to $148⅞.

The long bond yield, which broke above 6 per cent on Monday, kept the pressure on sentiment. By early afternoon the long bond had gained ⅛ to 101$\frac{9}{32}$, easing the yield back to 6.022 per cent.

Fears of higher interest rates topped the list of issues facing Wall Street. The Federal open market committee is set to meet next Tuesday to determine interest rate policy.

Investor caution also came in advance of figures due out later today on retail sales and producer prices.

The recent strong gains for auto sales and consumer confidence have convinced the market that retail sales will rise.

The session's firm features included Wal-Mart, the retail leader, which rose $1¼ to $52⅞ on news of record first-quarter results. Shares of International Paper also climbed, lifting the shares $1⅞ to $54⅞.

However, Sunbeam, the consumer products company, continued to fall, slipping a further 1\frac{1}{16}$ to $25 the day after reporting a quarterly loss.

The computer sector fell back. The Pacific Stock Exchange's technology index was down 1.94 to 354.86. In the software sector, Microsoft lost $$\frac{7}{16}$ to 83\frac{13}{16}$ after reports that Sun Microsystems planned to launch a lawsuit against the industry leader. Shares of Sun were down $¾ to $41.

TORONTO followed overseas markets lower and the TSE 300 composite fell 10.59 to 7,710.14 in cautious trading. The gold sub-index declined 0.8 per cent while the financial services sector lost 0.4 per cent.

Canadian Natural Resources, which reported a 78 per cent decline in first-quarter earnings due to weak oil prices, fell 10 cents to C$28.15.

YBM Magnex International, a metals group, lost 1.6 cents to C$13 after it announced that it was applying to regulators for a 45-day extension for mailing its financial statements.

Northern Telecom rose 70 cents to C$92. The company announced that its Australian subsidiary had acquired a 33 per cent stake in Photonic Technologies, a Sydney-based telecom component designer and manufacturer.

Frankfurt falls on rate worries

EUROPE

Solid performances by a sprinkling of blue chips helped pare early losses in FRANKFURT where renewed interest rate worries and a dull day for bonds sent the market lower.

Henkel and Hoechst gained ground while news that it planned to pull out of the race for Rolls-Royce Motor Cars boosted BMW. But the broad trend was unmistakably downwards. The Xetra Dax ended electronic trading off 40.93 at 5,307.82 after touching a low of 5,266.70.

Deutsche Telekom fell to DM43.50 at one stage before settling 74 pfg lower at DM44.85 on worries about provisions which the company said would make a "*considerable impression*" on this year's profits.

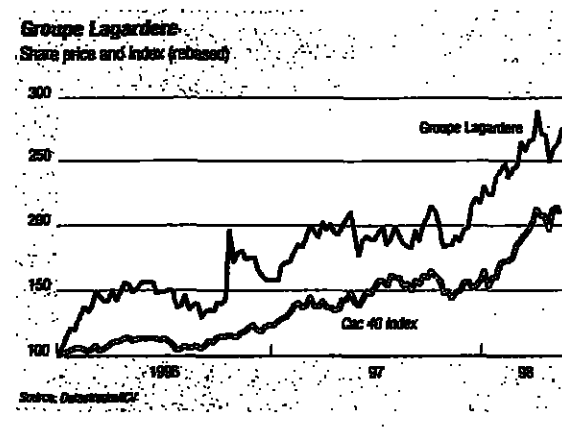
Insurers also showed marked weakness. Allianz lost DM10.50 at DM581.50 and Munich Re Dm16.60 at DM836.40.

Among chemicals, Henkel rose DM9.50 to DM158.70 on strong first-quarter results while Hoescht put on 85 pfg at DM74.60 following a swirl of merger rumours which linked the group with Roche of Switzerland.

BMW gained DM6 to DM2,010. Volkswagen, the rival bidder for Rolls-Royce Motor, lost DM25.10 at DM1,447.

PARIS moved lower with falls among cyclical stocks leading the CAC 40 index down by 29.91 at 3,987.33 in modest volumes.

Oils stocks pushed higher, rising above the broad sweep of selling thanks to the recent better tone for international oil prices and helped by broker optimism ahead of today's annual meeting at Total.



Elf Aquitaine added FFr32 to FFr825 and Total gained FFr16 to FFr764. Merrill Lynch published a positive note predicting improved trading conditions in the second half of 1998 while Lehman Brothers saw Total as a good buying opportunity.

Renault did its best to keep the motor sector consolidation stories bubbling, adding FFr1.40 at FFr316, but Peugeot, which many observers see as a partner for Renault, gave up FFr17 at FFr1,178. Tyre giant Michelin shed FFr5.30 to FFr366.50 after Lehman Brothers shaded its earnings estimates for this year.

Lagardere rose FFr9.50 or 4 per cent to FFr246.5 for a two-day rally of almost 7 per cent on talk that the defence and media conglomerate planned to shed its media business. The hot rumour yesterday was that Lagardere would spin off its media arm into a separate entity rather than sell it.

Bic advanced FFr16.40 to FFr438.90 following an upbeat annual meeting for the disposable pen and razor group. Credit Foncier, the property bank which has attracted four rival bids, ended FFr10.90 or 10.1 per cent higher at FFr118.40.

The day's main fallers were SGS-Thomson, off FFr32 or 6 per cent at FFr498, and Cap Gemini which lost FFr34 or 4.3 per cent at FFr757.

ZURICH saw heavy falls for financials as worries about interest rates sent a shiver through bonds and pushed the share market lower. *The SMI index ended* off 50.2 at 7,627.3.

The banks were under clear pressure with CS Group down SFr5 at SFr324.50 and UBS and SBC slipping SFr21 to SFr2,603 and Sfr8 to SFr557 respectively. Swiss Life, a strong market on Monday ahead of the 1997 results, came off SFr34 to SFr1,300 on the figures.

The day's gainers included Sulzer, which rose SFr20 to SFr1,187 after gaining promotion to SBC Warburg's core share list, and Clariant, up SFr44 at SFr1,728, ahead of Friday's first-quarter sales.

AMSTERDAM lost more than 1 per cent as concerns over *higher interest rates* and options led to depressed share prices.

The steady dollar failed to support confidence, and the AEX index fell 15.63 to 1,166.72 as bond prices eased and derivatives traders placed options related selling orders.

Interest rates hit banking shares. ABN Amro fell Fl 1.60 to Fl 49.20 while ING declined Fl 3.70 to Fl 132.50.

Philips, which gained ground on Monday on speculation that it would sell PolyGram to Seagram of Canada, lost Fl 2.40 to Fl 197.90. PolyGram, however, rose Fl 0.40 to Fl 102.90.

Fortis Amev, the Dutch-Belgian financials group, jumped Fl 3, or 2.5 per cent, to Fl 125.20 on an announcement by Belgium's Generale Bank that it planned to issue a statement on a possible *link with Fortis*.

Akzo Nobel, the chemicals group which is bidding for Courtaulds of the UK, fell Fl 3.90 to Fl 419 after PPG Industries of the US confirmed it was in talks with Courtaulds over a counter bid.

MILAN closed down 1.3 per cent amid light volume with the Mibtel index losing 315 to 24,344.

Banks and blue chips led the fall, with Banca di Roma losing L115, or 3 per cent, to L3,684 on profit-taking and BCI down L194 to L9,986. Telecom Italia sliding L95 *lower to L13,769 and ENI* retreating L190 to L11,935.

STOCKHOLM was hit by rising bond prices and the general index lost 26.01 to 3,630.71. The banking sector was the worst hit, falling almost 3 per cent. SE Banken fell SKr6 to SKr138 on reports that JP Morgan had cut its rating.

Kinnevik, the media and timber group, rose SKr10 to SKr260 on hopes that it would benefit from its telecoms holdings and its forestry arm.

Written and edited by Jeffrey Brown, Peter Hall and Emiko Terazono

São Paulo drops steeply

SAO PAULO lost ground at midsession as investors awaited the congress vote on pension reform.

The Bovespa index plummeted 358 or 3.2 per cent to 10,626 as most investors remained on the sidelines.

The *government's social* security reform programme suffered a blow recently when it failed to stop the suspension of a minimum retirement age.

Meanwhile, the São Paulo state government said yesterday that it had a new plan for the sale of its power utility Cesp.

MEXICO CITY lost ground on heightening worries over an imminent rise in US interest rates. The IPC index fell 83.91 or 1.7 per cent to 4,759.63 on selling by foreign investors.

A Reuters survey of *Mexico City brokers* predicts the index will rise above 6,000 by the end of the year.

In BUENOS AIRES, the Merval index lost 11.03 or 1.6 per cent to 669.27.

Shares declined in spite of positive quarterly results. Traders said the figures were already built into the share prices.

Jo'burg dented by weak rand

SOUTH AFRICA

Depressed by rand weakness and a shake-out at South African Breweries, shares in Johannesburg moved steeply lower with the all-share index ending off 154.5 or 1.9 per cent at 8,016.0.

Financials fell 227.4 to 13,450.7 and industrials gave up 184.4 at 9,688.2. Disappointing results sent SA Breweries down R10 or 6.2 per cent to R151.

Golds continued to improve, adding 12.8 to 1,062.9.

Karachi hit by N-test fall-out

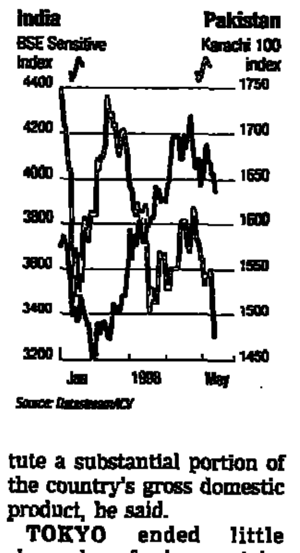
ASIA PACIFIC

Rising regional tensions in the wake of India's nuclear tests and the growing international political war of words sent KARACHI tumbling almost 5 per cent. But late in the day, speculative *short-covering trimmed the* losses and the KSE-100 index finished 22.89 or 1.5 per cent lower at 1,491.21.

The early fall was attributed to concerns that Pakistan might increase its defence spending in next month's budget, and fears foreign investment to the region could be hit.

BOMBAY recovered from a sharp early fall as investors had second thoughts about the impact of possible international sanctions. The BSE-30 index dropped to 3,917.90, but recovered to close 77.07 weaker at 3,945.13.

Software shares were hard hit in early trade on fears that sanctions might hit exports, but dealers said the misgivings were far-fetched. One analyst added there was likely to be an increase in the perceived investment risk in India, but foreign investment did not constitute a substantial portion of the country's gross domestic product, he said.



TOKYO ended little changed on fresh uncertainties about the economy and concerns about the prospect of deflation, *writes Gillian Tett in Tokyo*. The Nikkei 225 average finished 59.42 lower at 15,322.48 after trading in a tight range between 15,306.92 and 15,446.30. Volume was 350m shares, up from Monday's 270m.

Traders said trading was partly subdued by the forthcoming G8 summit. However, the index was slightly buoyed in the morning by continued optimism that Daimler-Benz, the German motor manufacturer, would press ahead with its plans to acquire Nissan Diesel Motor, an affiliate of the Nissan Motor group.

The story fuelled optimism that other Western companies might soon try to acquire Japanese groups.

Nissan Motor was actively traded for the second day running, rising Y23 to Y457. The assembly group, Nissan *Shatai, rose Y36 to Y356, and* parts maker Ichikoh Industries Y17 to Y271. Meanwhile, Nissan Diesel Motor jumped to Y290 from Friday's Y160. Other carmakers benefited: *Toyota Motor* climbed Y20 to Y3,470, Isuzu Motors Y20 to Y246, Suzuki Motor Y70 to Y170 and Daihatsu Motor Y37 to Y506.

But outside the car sector, sentiment was more subdued amid new gloomy data about the economy. In addition, new rumours of financial companies facing problems helped dampen sentiment.

The Topix index of all first-section shares improved 2.07 to 1,204.86.

HONG KONG ended steeply lower after a session dominated by futures-led selling. Both the May and June equity contracts ended at a discount of almost 1 per cent to the cash market which fell 2.5 per cent with the Hang Seng index off 254.86 at 9,841.51. This is the benchmark's lowest level since February.

HSBC lost HK$6 at HK$211 and Cheung Kong was down HK$2 at HK$47.70. HK Telecom, supported by the raft of industry consolidation stories sparked by US telecoms *mergers, improved 20 cents* to HK$15.10.

SEOUL was shaken by fears of a spate of corporate failures and the composite index came off 9.72 or 2.7 per *cent to* 351.86.

Fears that the government's push for reform would trigger the closure of unhealthy enterprises depressed sentiment among private investors. The government is expected to make commercial banks cut off fresh credit to weaker corporations. However, foreigners were heartened by the news and were net buyers.

Hanwha Group fell Won240 to Won1,760, while Kohap Petrochemical declined Won240 to Won1,760.